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17 June 2013

The Directors
Macau Legend Development Limited
CLSA Equity Capital Markets Limited

Dear Sirs,

We set out below our report on the financial information ("Financial Information") regarding Macau Legend Development Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2012 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 17 June 2013 (the "Prospectus") issued in connection with the proposed listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in the Cayman Islands on 5 October 2006 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

As at 31 December 2010, 2011 and 2012 and the date of this report, the Company has the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid capital, registered capital	Equity interest attributable to the Group as at				Principal activities
			31 December			Date of this report	
			2010	2011	2012		
Hong Hock Development Company Limited ("Hong Hock")*	Macau 8 June 1992	Ordinary shares MOP1,000,000	100%	100%	100%	100%	Provision of gaming related facilities and gaming related general management services
New Macau Landmark Management Limited ("New Macau Landmark")	Macau 9 December 2002	Ordinary shares MOP100,000	100%	100%	100%	100%	Operating hotel business
Macau Legend Development (Hong Kong) Limited ("Macau Legend (Hong Kong)")*	Hong Kong 4 May 2007	Ordinary share HK$1	100%	100%	100%	100%	Provision of management services to group companies
Macau Landmark Limited ("Macau Landmark")* .	Hong Kong 15 June 2006	Ordinary share HK$1	100%	100%	100%	100%	Inactive

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid capital, registered capital	Equity interest attributable to the Group as at 31 December 2010	2011	2012	Date of this report	Principal activities
Macau Legend Development Company Limited ("Macau Legend Company")*	Hong Kong 9 May 2006	Ordinary share HK$1	100%	100%	100%	100%	Inactive
Triumphant Time Limited*	British Virgin Islands ("BVI") 13 March 2012	Ordinary share US$1	—	—	100%	100%	Investment holding
Star Pyramid Limited* . . .	BVI 16 March 2012	Ordinary share US$1	—	—	100%	100%	Investment holding
Macau Fisherman's Wharf International Investment Limited ("MFW")*#	Macau 28 August 2000	Ordinary shares MOP 10,000,000	—	—	100%	100%	Operating theme park
Grand Merit Retail Group Limited ("Grand Merit")#	Macau 25 August 2006	Quota shares MOP100,000	—	—	100%	100%	Retail of clothing, footwear and accessories
Legend King International Limited ("Legend King")#	Macau 25 August 2006	Quota shares (Note)	—	—	100%	100%	Inactive
Elegant Wave Restaurant Group Limited^#	Macau 29 March 2010	Quota shares MOP100,000	—	—	100%	100%	Operation of a restaurant

Note: The amount of quota shares of Legend King has been predetermined at MOP100,000, but the quota share has not yet been paid during the Relevant Periods.

* 100% directly owned by the Company, except MFW, which is 80% directly and 20% indirectly owned by the Company.

\# MFW and its subsidiaries were acquired by the Group on 18 May 2012. Details of the acquisition as well as the consolidated financial information of MFW and its subsidiaries for the Pre-acquisition Periods are defined and explained in notes 42 and 43 respectively.

^ The subsidiary was acquired on 30 April 2012 by MFW. The consideration of the acquisition is approximately HK$100,000 which approximated the fair value of net identifiable assets of the acquiree at the date of acquisition.

The financial year end date of the Company and its subsidiaries is 31 December.

We have acted as the statutory auditor of Macau Legend (Hong Kong), Macau Landmark and Macau Legend Company for each of the three years ended 31 December 2012. The statutory financial statements are prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have also acted as the auditor of Hong Hock, New Macau Landmark and MFW for each of the three years ended 31 December 2012 whose financial statements are prepared in accordance with HKFRSs.

No audited statutory financial statements have been prepared for the Company and other subsidiaries since their respective dates of incorporation as there is no statutory requirement.

For the purpose of this report, the directors of the Company have prepared consolidated financial statements of the Company in accordance with HKFRSs issued by the HKICPA for the Relevant Periods (the "Underlying Financial Statements"). We have undertaken an independent audit on the Underlying Financial Statements in accordance with the Hong Kong Standards on Auditing issued by the HKICPA. We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared based on the Underlying Financial Statements. No adjustments were considered necessary to the Underlying Financial Statements in preparing the Financial Information.

The Underlying Financial Statements are the responsibility of the directors of the Company who approve their issue. The directors of the Company are also responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group and the Company as at 31 December 2010, 2011 and 2012 and of the consolidated results and consolidated cash flows of the Group for each of the three years ended 31 December 2012.

(A) FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2010	2011	2012
		HK$'000	HK$'000	HK$'000
Revenue	6	1,095,295	1,345,930	1,501,088
Cost of sales and services		(417,156)	(418,712)	(664,672)
		678,139	927,218	836,416
Other income, gains and losses	8	2,650	3,401	36,057
Marketing and promotional expenses		(28,472)	(31,472)	(45,587)
Operating and administrative expenses		(137,150)	(200,696)	(232,788)
Finance costs	9	(17,995)	(50,009)	(62,862)
Profit before taxation	12	497,172	648,442	531,236
Taxation	13	—	—	4,105
Profit and total comprehensive income for the year, attributable to owners of the Company		497,172	648,442	535,341
Basic earnings per share (HK cents)	15	14.7	19.2	11.8

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2010	2011	2012
		HK$'000	HK$'000	HK$'000
Non-current assets				
Investment properties	16	137,364	133,523	265,062
Property and equipment	17	633,376	684,786	2,283,953
Prepaid lease payments	18	459,268	447,534	1,778,366
Goodwill	20	—	—	681,986
Deposits paid for acquisition of property and equipment		—	—	5,031
Investment deposit	22	200,000	200,000	—
Pledged bank deposit	27	50,000	—	—
		1,480,008	1,465,843	5,014,398
Current assets				
Inventories	23	5,441	5,491	27,732
Prepaid lease payments	18	11,734	11,734	49,969
Trade and other receivables	24	355,841	415,315	466,590
Amounts due from directors	25	330,000	819,510	1,971,753
Amounts due from shareholders	25	—	238,265	238,265
Amounts due from related companies	26	313,543	333,962	19,903
Pledged bank deposits	27	—	—	20,581
Bank balances and cash	27	31,107	71,671	112,117
		1,047,666	1,895,948	2,906,910
Current liabilities				
Trade and other payables	28	139,895	249,041	541,227
Amount due to a director	25	7,863	2,100	3,556
Amounts due to related companies	26	58,715	105,648	105,562
Bank borrowings — due within one year	29	171,432	272,423	333,802
Other financial liabilities	30	3,033,409	—	10,052
		3,411,314	629,212	994,199
Net current (liabilities) assets		(2,363,648)	1,266,736	1,912,711
Total assets less current liabilities		(883,640)	2,732,579	6,927,109
Non-current liabilities				
Bank borrowings — due after one year	29	557,130	1,456,226	1,404,525
Deferred tax liability	31	—	—	198,094
		557,130	1,456,226	1,602,619
Net (liabilities) assets		(1,440,770)	1,276,353	5,324,490
Capital and reserves				
Share capital	32	337,917	339,185	522,672
Reserves		(1,778,687)	937,168	4,801,818
Equity attributable to owners of the Company		(1,440,770)	1,276,353	5,324,490

STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2010	2011	2012
		HK$'000	HK$'000	HK$'000
Non-current asset				
Investments in subsidiaries	19	527,312	527,312	4,247,005
Current asset				
Prepayments		62	27	10,420
Current liabilities				
Accrued expenses		4,403	7,003	2,045
Amount due to a director	25	7,863	2,100	3,556
Amounts due to subsidiaries	25	245,435	1,277,534	1,524,491
Other financial liabilities	30	3,033,409	—	10,052
		3,291,110	1,286,637	1,540,144
Net current liabilities		(3,291,048)	(1,286,610)	(1,529,724)
Net (liabilities) assets		(2,763,736)	(759,298)	2,717,281
Capital and reserves				
Share capital	32	337,917	339,185	522,672
Reserves	33	(3,101,653)	(1,098,483)	2,194,609
Equity attributable to owners of the Company		(2,763,736)	(759,298)	2,717,281

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Other reserve	Special reserve	Share options reserve	Retained earnings	Total
	HK$'000	HK$'000	HK$'000 (remark)	HK$'000 (note 30)	HK$'000	HK$'000	HK$'000
At 1 January 2010	337,917	36,497	(323,835)	(2,796,794)	—	808,273	(1,937,942)
Profit and total comprehensive income for the year	—	—	—	—	—	497,172	497,172
At 31 December 2010	337,917	36,497	(323,835)	(2,796,794)	—	1,305,445	(1,440,770)
Profit and total comprehensive income for the year	—	—	—	—	—	648,442	648,442
Issue of new shares (note 40(b))	1,268	15,338	—	—	—	—	16,606
Waive of dividend payables (note 30)	—	—	—	2,033,409	—	—	2,033,409
Transfer upon waive of dividend payables	—	—	—	763,385	—	(763,385)	—
Share-based payments (note 40(a))	—	—	—	—	18,666	—	18,666
At 31 December 2011	339,185	51,835	(323,835)	—	18,666	1,190,502	1,276,353
Profit and total comprehensive income for the year	—	—	—	—	—	535,341	535,341
Share-based payments (note 40(b))	—	8,303	—	—	—	—	8,303
Issue of shares as consideration for acquisition of subsidiaries (note 42)	183,487	3,336,206	—	—	—	—	3,519,693
Deemed distribution to a non-controlling shareholder (note 30)	—	—	—	(15,200)	—	—	(15,200)
Coupon paid (note 30)	—	—	—	5,148	—	(5,148)	—
At 31 December 2012	522,672	3,396,344	(323,835)	(10,052)	18,666	1,720,695	5,324,490

Remark:

In December 2006, the companies comprising the Group underwent a group reorganization ("Reorganization") to rationalize the Group's structure which principally involved:

(i) transferred the entire interest in New Macau Landmark to Hong Hock for a nominal consideration on 5 December 2006; and

(ii) transferred the entire interest in Hong Hock to the Company and in return, the Company issued 1,852,499,999 ordinary shares and 1,397,500,000 Preferred Shares (as defined in note 3) at HK$0.10 per share each to shareholders of Hong Hock on 14 December 2006. Accordingly, the Company became the holding company of the companies comprising the Group upon completion of the Reorganization.

The other reserve of the Group represents the difference between nominal value of the shares of subsidiaries acquired by the Company and the nominal value of the shares of the Company issued for the acquisition at the time of the Reorganization.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Year ended 31 December		
		2010	2011	2012
		HK$'000	HK$'000	HK$'000
Operating activities				
Profit before taxation		497,172	648,442	531,236
Adjustments for:				
Interest income		(199)	(35)	(2,173)
Interest expense		17,995	50,009	62,862
Allowance for bad and doubtful debts		159	69	1,216
(Reversal) recognition of write down on inventories		(10)	3	6,311
Reversal of overprovision of construction cost		—	(142)	(13,152)
Depreciation of investment properties		3,842	3,841	6,461
Depreciation of property and equipment		47,564	48,256	97,221
Loss on disposal of property and equipment		74	469	—
Release of prepaid lease payments		11,734	11,734	34,895
Share-based payments		—	35,272	8,303
Operating cash flows before movements in working capital		578,331	797,918	733,180
Decrease (increase) in inventories		336	(53)	(4,882)
(Increase) decrease in trade and other receivables		(46,408)	(101,244)	47,275
Decrease (increase) in amounts due from related companies		2,527	(1,723)	417
Increase in trade and other payables		25,938	12,193	52,632
Increase (decrease) in amounts due to related companies		16	(16)	—
Net cash from operating activities		560,740	707,075	828,622
Investing activities				
Acquisition of subsidiaries, net of cash and cash equivalents acquired	42	—	—	60,521
Withdrawal (additions) of pledged bank deposit		—	50,000	(2)
Interest received		199	35	2,173
Advance to directors		(330,000)	(1,489,510)	(496,241)
Advance to shareholders		—	(238,265)	—
Advance to related companies		(49,612)	(20,289)	(168,164)
Repayment from related companies		3,469	1,593	—
Advance to a gaming promoter		(66,944)	—	—
Repayment from a gaming promoter		36,671	41,701	—
Purchase of property and equipment		(22,944)	(17,485)	(7,687)
Proceeds from disposal of property and equipment		—	14,850	335
Addition to prepaid lease payments		—	—	(67,962)
Net cash used in investing activities		(429,161)	(1,657,370)	(677,027)
Financing activities				
Interest paid		(17,995)	(50,009)	(62,862)
Advance from a director		1,405	1,259	3,900
Repayment to a director		—	(7,022)	(2,444)
Advance from related companies		50,055	—	—
Repayment to related companies		—	(50,551)	(86)
Advance from a gaming promoter		—	181,541	79,773
Repayment to a gaming promoter		—	(84,446)	(133,960)
New bank borrowings raised		—	1,783,649	300,000
Repayment of bank borrowings		(171,432)	(783,562)	(290,322)
Coupon paid to a non-controlling shareholder		—	—	(5,148)
Net cash (used in) from financing activities		(137,967)	990,859	(111,149)
Net (decrease) increase in cash and cash equivalents		(6,388)	40,564	40,446
Cash and cash equivalents at beginning of the year		37,495	31,107	71,671
Cash and cash equivalents at end of the year, represented by				
Bank balances and cash		31,107	71,671	112,117

NOTES TO FINANCIAL INFORMATION

1. GENERAL

The address of the registered office of the Company is Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the address of the principal place of business of the Company is 21/F, Landmark Building, 555 Avenida da Amizade, Macau. Particulars of the Company's subsidiaries have been set out in the foregoing section.

The Group is the owners of entertainment and casino gaming facilities and leisure complex in Macau. The Company was incorporated under the laws of the Cayman Islands in 2006 to operate the business in the complex namely The Landmark Macau. In May 2012, the Group acquired 100% of the issued capital of MFW, which operates Macau Fisherman's Wharf, a waterfront integrated gaming, hotel, convention and entertainment complex located on the outer harbor of the Macau Peninsula. Details are set out in note 42.

Under the service agreement dated 25 September 2006 and its related amendments ("Service Agreement") entered between Hong Hock and gaming operator, Sociedade de Jogos de Macau, S.A. ("SJM"), the Group provides gaming related facilities and gaming related general management services at two major casinos operated under the Service Agreement, Pharaoh's Palace Casino at The Landmark Macau, as well as Babylon Casino at Macau Fisherman's Wharf since acquisition of MFW. The service period commenced on 26 September 2006 and continued until the end of the SJM concession contract on 31 March 2020. For details of the Service Agreement, please refer to section headed "Gaming Services Model — The Service Agreement" in the Prospectus.

The Financial Information is presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company and its subsidiaries.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Group and the Company has consistently applied the relevant HKFRSs, Hong Kong Accounting Standards ("HKAS"), amendments and interpretations which are effective for annual accounting period beginning on 1 January 2012 throughout the Relevant Periods.

New and revised HKFRSs issued but not yet effective

At the date of this report, the HKICPA has issued the following new and revised standards, amendments and interpretations which are not yet effective:

Amendments to HKFRSs	Annual improvements to HKFRSs 2009–2011 cycle[2]
Amendments to HKFRS 1	Government loans[2]
Amendments to HKFRS 7	Disclosures — Offsetting financial assets and financial liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[4]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[3]
HKFRS 9	Financial instruments[4]
HKFRS 10	Consolidated financial statements[2]
HKFRS 11	Joint arrangements[2]
HKFRS 12	Disclosure of interests in other entities[2]
HKFRS 13	Fair value measurement[2]
Amendments to HKAS 1	Presentation of items of other comprehensive income[1]
HKAS 19 (Revised 2011)	Employee benefits[2]
HKAS 27 (Revised 2011)	Separate financial statements[2]
HKAS 28 (Revised 2011)	Investments in associates and joint ventures[2]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[3]
HK(IFRIC)-INT 20	Stripping costs in the production phase of a surface mine[2]

[1] Effective for accounting periods beginning on or after 1 July 2012.

[2] Effective for accounting periods beginning on or after 1 January 2013.

[3] Effective for accounting periods beginning on or after 1 January 2014.

[4] Effective for accounting periods beginning on or after 1 January 2015.

The Group and the Company have not early applied these new and revised HKFRSs that have been issued but are not yet effective in the preparation of the Financial Information.

The directors of the Company anticipate that the application of the new and revised HKFRSs will have no material impact on the financial statements of the Group and the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis and in accordance with HKFRSs issued by the HKICPA. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The accounting policies are set out below.

Basis of consolidation

The financial information incorporates the financial statements of the Company and the entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Income and expenses of subsidiaries acquired or disposed of during the Relevant Periods are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits", respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investment in subsidiaries

Investment in subsidiaries are included in the Company's statement of financial position at cost less identified impairment loss. Income from investments in subsidiaries is accounted for on the basis of dividends received and receivable.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts.

Revenue from hotel operations, food and beverage, and building management services are recognized when the services are rendered and goods are sold and it is probable that the economic benefits associated with the transaction will flow to the Group.

Revenue arising from provision of gaming related facilities and gaming related general management services is recognized when the gaming facilities are provided and relevant services have been rendered and the Group is entitled to the share of net gaming wins of the casinos.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's policy for recognition of licensing income from operating leases is described under the accounting policy of leasing.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is recognized so as to write off the cost of investment properties over their lease term using the straight-line method.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognized.

Property and equipment

Property and equipment are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses.

Construction in progress includes property and equipment in the course of construction for production, supply or administrative purposes and is carried at cost, less recognized impairment loss, if any. Construction in progress is classified to the appropriate categories of property and equipment when completed and ready for their intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost of items of property and equipment less their residual values over (i) in the case of gaming machinery, the shorter of their estimated useful lives and the remaining term of the Service Agreement and (ii) in the case of other property and equipment, their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortized over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property and equipment.

Leasing

Lease are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the leases. All other leases are classified as operating leases.

The Group as lessor

Licensing income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term. Contingent licensing income arising under operating leases are recognized as income in the period in which they are earned.

The Group as lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognized in profit or loss in the period in which they arise.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the consolidated statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognized in other comprehensive income or directly in equity respectively.

Inventories

Inventories consist of food and beverage, retail merchandise and operating supplies and are stated at the lower of cost and net realizable value. Cost of inventories are calculated using the first-in, first-out method.

Impairment of tangible assets and investment in subsidiaries

At the end of the reporting period, the Group and the Company reviews the carrying amounts of its tangible assets and investment in subsidiaries to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options and shares granted to directors

The fair value of services received determined by reference to the fair value of share options or shares granted at the grant date is expensed on a straight-line basis over the vesting period or recognized as an expense in full at the grant date when the share options or shares granted vest immediately, with a corresponding increase in equity (share options reserve and share premium for share options and shares granted respectively).

When share options are exercised, the amount previously recognized in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share options reserve will be transferred to retained profits.

Financial instruments

Financial assets and financial liabilities are recognized in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from directors, shareholders and related companies, pledged bank deposits and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses. The accounting policy on impairment loss of loans and receivables is set out below.

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been affected. Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of a financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When trade and other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity instrument

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Financial liabilities

Financial liabilities, including trade and other payables, accrued expenses, amounts due to a director, related companies and subsidiaries and bank borrowings, are subsequently measured at amortized cost using the effective interest method.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

Other financial liabilities

Other financial liabilities represent the Company's contractual obligation to deliver cash relating to (i) the dividend entitlement granted to holders of the mandatorily convertible preferred shares ("Preferred Shares") and ordinary shares; and (ii) coupon payments to a non-controlling shareholder described in note 30. At initial recognition, the fair value of other financial liabilities are estimated based on the present value of the contractual obligation discounted using the prevailing market interest rate for similar debt with a similar credit rating, and measured at amortized cost using the effective interest method in subsequent reporting periods.

Preferred Shares

Preferred Shares are regarded as compound instruments as they are consisted of a liability component and an equity component. At the date of issue, the fair value of the liability component, included in other financial liabilities, representing the Company's contractual obligation to deliver cash relating to dividend entitlements granted to holders of these Preferred Shares as described in note 30, which is estimated based on the present value of the contractual obligation discounted using the prevailing market interest rate for similar debt with similar credit rating. The difference between the proceeds of issue of the Preferred Shares and the fair value assigned to the liability component is included in equity as share capital, share premium and special reserve, where applicable.

In subsequent periods, the liability component of the Preferred Shares is carried at amortized cost using the effective interest method.

Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, canceled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 "Provisions, contingent liabilities and contingent assets"; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with the revenue recognition policy.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognized in profit or loss.

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

The following is the key source of estimation uncertainty at the end of the reporting period, that has a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Income taxes

No deferred tax asset was recognized in the Financial Information in relation to the unused tax losses available to offset against future profits of HK$106,125,000, HK$106,317,000 and HK$337,908,000 as at 31 December 2010, 2011 and 2012 respectively. The realization of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. Where the actual future profits generated are more than expected, further recognition of deferred tax asset in relation to unutilized tax losses may arise, which would be recognized in the consolidated statements of comprehensive income for the year in which such a recognition takes place.

Depreciation

The carrying amounts of the Group's property and equipment (other than construction in progress) and investment properties as at 31 December 2010, 2011 and 2012 are HK$754,230,000, HK$813,574,000 and HK$2,496,400,000 respectively. The Group depreciates the property and equipment (other than construction in progress) and investment properties over their estimated useful lives, or, where appropriate, a shorter period of the remaining terms of the Service Agreement for gaming machinery, using the straight-line method commencing from the date of property and equipment (other than construction in progress) and investment properties are ready for the intended use. The estimated useful life reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's property and equipment (other than construction in progress) and investment properties. The depreciation charges are adjusted on a prospective basis if there are significant changes from previous estimates.

Impairment of amounts due from directors, shareholders, related companies and a gaming promoter and receivables from gaming operator

When there is objective evidence of an impairment loss on the receivables, the Group takes into consideration the estimation of future cash flows to determine the impairment loss. The amount of the impairment loss is measured as the difference between the receivables' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the receivables' original effective interest rate (i.e. the effective interest rate computed at initial recognition). When the actual future cash flows are less than expected, a material impairment loss may arise.

Fair value of financial guarantee contracts and contingent liabilities

As described in note 38, based on management's assessment, the fair value of financial guarantee contracts and contingent liabilities is considered as insignificant during the Relevant Periods. In making the assessment, the management takes into account, among other things, the continuous cash flows from gaming operators to gaming promoters and historical settlement records of the gaming promoter. When the actual outcome is not as expected by the management, a material liability may arise.

Impairment of goodwill, investment properties, property and equipment and prepaid lease payments

The carrying amount of the Group's goodwill as at 31 December 2012 is HK$681,986,000. Determining whether goodwill is impaired requires an estimation of the recoverable amount, which is the higher of the fair value less costs to sell and value in use of the CGU to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the value in use calculation are set out in note 21.

Determining whether the investment properties, property and equipment and prepaid lease payments are impaired requires an estimation of the recoverable amount of the individual asset or the respective CGUs in which these assets belong, which is the higher of the value in use and fair value less costs to sell. Where the actual future cash flows or fair value less cost to sell are less than expected, a material impairment loss may arise.

Impairment of investments in subsidiaries

The carrying amount of the Company's investments in subsidiaries as at 31 December 2010, 2011 and 2012 are HK$527,312,000, HK$527,312,000 and HK$4,247,005,000 respectively. The Company reviews the carrying amounts of its investments in subsidiaries to determine whether there is any indication that those investments in subsidiaries have suffered an impairment loss. If any such indication exists, the recoverable amount of the investments in subsidiaries is estimated in order to determine the extent of the impairment loss, if any. In determining the recoverable amount, the Company estimates the future cash flows expected to generate from the subsidiaries and apply a suitable discount rate to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

5. FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the amounts due to a director and related companies, bank borrowings and other financial liabilities disclosed in notes 25, 26, 29 and 30 respectively and equity attributable to owners of the Company, comprising issued share capital disclosed in note 32 and reserves. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new shares issue as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged throughout the Relevant Periods.

Categories of financial instruments

	THE GROUP		
	As at 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Financial assets			
Loans and receivables (including cash and cash equivalents)	1,078,592	1,876,993	2,815,857
Financial liabilities			
Amortized cost	3,968,444	2,085,438	2,398,724

	THE COMPANY		
	As at 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Financial assets			
Loans and receivables (including cash and cash equivalents)	—	—	—
Financial liabilities			
Amortized cost	3,291,110	1,286,637	1,540,144

Financial risk management objectives and policies

The Group's and the Company's major financial instruments include trade and other receivables, amounts due from/to directors, shareholders and relates companies, pledged bank deposits, bank balances and cash, trade and other payables, accrued expenses, bank borrowings and other financial liabilities. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) *Interest rate risk*

THE GROUP

The Group is mainly exposed to cash flow interest rate risk in relation to variable-rate bank borrowings and bank deposits, and fair value interest rate risk in relation to fixed-rate pledged bank deposits and non-interest bearing amounts due from/to directors, shareholders and related companies.

The Group currently does not have interest rate hedging policy. However, management closely monitors its exposure to future cash flow risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offer Rate ("HIBOR") and Macau prime rate and arising from the Group's variable-rate borrowings.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rate for bank borrowings. The sensitivity analysis is prepared assuming the bank borrowings outstanding at the end of the reporting period were outstanding for the whole year. No sensitivity analysis is provided on bank deposits as the directors of the Company consider that the interest rate fluctuation on bank deposits is minimal.

A 50 basis point increase or decrease is used during the Relevant Periods, which represents management's assessment of the reasonably possible change in interest rates. If the interest rate had been 50 basis point higher/lower and all other variables were held constant, the Group's post-tax profit for each of the years ended 31 December 2010, 2011 and 2012 would decrease/increase by approximately HK$3,643,000, HK$8,643,000 and HK$8,692,000 respectively.

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the year end exposure does not reflect the exposure during the respective year.

THE COMPANY

The Company does not expose to any cash flow interest rate risk as it does not hold any bank balances or raise any bank borrowings throughout the Relevant Periods.

(ii) *Currency risk*

THE GROUP

Certain trade and other receivables, trade and other payables, bank balances and cash and amounts due from (to) related companies are denominated in foreign currencies other than the functional currency of the relevant group entities, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting periods are as follows:

	Assets		
	As at 31 December		
	2010	**2011**	**2012**
	HK$'000	**HK$'000**	**HK$'000**
Macau Pataca ("MOP")	93,945	89,457	154,515
EURO	—	—	4,821

	Liabilities		
	As at 31 December		
	2010	**2011**	**2012**
	HK$'000	**HK$'000**	**HK$'000**
MOP	221,862	302,127	682,283

The directors of the Company do not expect any significant foreign currency exposure as MOP is pegged to HK$.

THE COMPANY

As the financial assets and financial liabilities of the Company are primarily denominated in HK$, the Company is not exposed to significant foreign currency risk.

Credit risk

THE GROUP

As at 31 December 2010, 2011 and 2012, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge obligations by the counterparties as at the end of reporting period are arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statements of financial position and the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 38.

In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts, if any. The Group reviews the recoverable amount of each individual debt, advance and credit risk associated with guarantees to gaming promoters at the end of each reporting period to ensure that adequate impairment losses or provision are made for irrecoverable amounts or guaranteed amounts.

In relation to the gaming business, the Group has concentration of credit risk on trade receivable as 88%, 92% and 72% of the total trade receivables is due from the Group's largest debtor as at 31 December 2010, 2011 and 2012 respectively. The Group also has concentration of credit risk on other receivable as 88%, 89% and 95% of the total other receivables is due from this debtor as at 31 December 2010, 2011 and 2012 respectively. Having considered the continuous subsequent settlements and no historical default of payments by this debtor, the directors of the Company consider that the credit risk is significantly reduced.

In addition, the Group has concentration of credit risk on the Group's advances and guarantees to gaming promoters. In ascertaining the recoverability of the advances and credit risk associated with guarantees to gaming promoters, the Group considers the continuous cash inflow from gaming operator to gaming promoters and continuous settlement to the Group from gaming promoter. As a result, the directors of the Company consider that the Group's exposure to credit risk on these advances and guarantees is significantly reduced.

In relation to the non-gaming business, before accepting any new customers with the grant of credit period, the Group will assess the potential customers' credit quality by reference to the experience of the management and defines credit limit by customers. Such credit limit is reviewed by the management periodically. The Group has no significant concentration of credit risk, with exposure spread over a number of customers.

The Group has significant concentration risk in respect of amounts due from directors, shareholders and related companies. The details are set out in notes 25 and 26. Having considered the financial background and creditability of the directors, shareholders and related companies, the management of the Group considered that the amounts at the end of the reporting periods are recoverable and credit risk on amounts due from them is not significant.

The credit risk for bank deposits and bank balances is considered as minimal as such amounts are placed in banks with good reputation in Macau Special Administrative Region ("MSAR").

THE COMPANY

The Company does not have any significant credit risk.

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the operations and mitigate the effects of fluctuations in cash flows. The Group relies on bank borrowings as a significant source of liquidity. The management monitors the utilization of borrowings and ensures compliance with loan covenants.

Liquidity table

The following tables detail the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The maturity dates for non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows.

THE GROUP

	Weighted average effective interest rate	Repayable on demand or within 3 months	Between 3 months to 1 year	Between 1 to 2 years	Between 2 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount at the end of the reporting date
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2010								
Non-interest bearing instruments	N/A	206,473	—	—	—	—	206,473	206,473
Variable interest rate instruments	2.21%	46,519	138,238	181,242	394,922	—	760,921	728,562
Other financial liability	6%	3,033,409	—	—	—	—	3,033,409	3,033,409
		3,286,401	138,238	181,242	394,922	—	4,000,803	3,968,444
At 31 December 2011								
Non-interest bearing instruments	N/A	356,789	—	—	—	—	356,789	356,789
Variable interest rate instruments	3.54%	—	422,587	273,037	1,307,191	—	2,002,815	1,728,649
Financial guarantee contract	N/A	300,000	—	—	—	—	300,000	—
		656,789	422,587	273,037	1,307,191	—	2,659,604	2,085,438
At 31 December 2012								
Non-interest bearing instruments	N/A	654,062	6,335	—	—	—	660,397	660,397
Variable interest rate instruments	3.63%	88,502	307,202	405,073	1,097,241	—	1,898,018	1,738,327
Financial guarantee contract	N/A	300,000	—	—	—	—	300,000	—
		1,042,564	313,537	405,073	1,097,241	—	2,858,415	2,398,724

Apart from the guarantees to gaming promoters as disclosed in note 38(i), the amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

THE COMPANY

The Company's non-derivative financial liabilities are repayable on demand, as such, the amounts of undiscounted cash outflows are same as the respective carrying amounts of the non-derivative financial liabilities at the end of the reporting period.

Fair values

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Financial Information approximate their fair values.

6. REVENUE

Revenue mainly represents the amount received and receivable for good sold and services rendered by the Group to outside customers, less allowance. An analysis of the Group's revenue during the Relevant Periods is as follows:

	Year ended 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Revenue from provision of gaming related facilities and gaming related general management services under the Service Agreement in respect of:			
— mass market tables	754,530	918,259	984,461
— VIP rooms	87,873	123,343	110,810
— slot machines	24,866	26,633	16,171
	867,269	1,068,235	1,111,442
Revenue from non-gaming operations:			
— Rental income from hotel rooms	87,391	123,458	135,093
— Licensing income from investment properties	28,243	33,949	48,948
— Income from building management services	34,330	36,413	42,928
— Food and beverage	71,366	76,139	132,692
— Sales of merchandise	—	—	22,506
— Others	6,696	7,736	7,479
	228,026	277,695	389,646
	1,095,295	1,345,930	1,501,088

7. SEGMENT INFORMATION

The directors of the Company (the "Directors") have been identified as the chief operating decision maker. The Directors review the Group's internal reports in order to assess performance and allocate resources.

For provision of gaming related facilities and gaming related general management services, the Directors regularly analyze gaming related revenue in terms of service income from mass market tables, VIP rooms and slot machines. No operating result or discrete financial information is presented to the Directors in relation to the above analysis. The Directors review separately the entire revenues and operating results attributable to gaming related services and non-gaming operations. As such, the Directors have identified the operating and reportable segments under HKFRS 8 as gaming and non-gaming operations.

The segment information reported externally is consistent with the internal information that is regularly reviewed by the Directors for the purposes of resource allocation and assessment of performance. This is also the basis of organization in the Group, whereby the management has chosen to organize the Group around differences in products and services. The principal activities of the operating and reportable segments are as follows:

Gaming — gaming related services for mass market tables, VIP rooms and slot machines under the Service Agreement whereby the revenue is based on net gaming wins.

Non-gaming — hotel operations in The Landmark Macau and Macau Fisherman's Wharf operation and other operations including licencing income from the shops, provision of building management service, food and beverage and others.

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments:

For the year ended 31 December 2010

	Gaming	Non-gaming	Elimination	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
External revenue	867,269	228,026	—	1,095,295
Inter-segment revenue	—	48,815	(48,815)	—
Segment revenue	867,269	276,841	(48,815)	1,095,295
Segment profits	514,908	14,070	—	528,978
Unallocated corporate expenses				(13,811)
Finance costs				(17,995)
Profit before taxation				497,172

For the year ended 31 December 2011

	Gaming	Non-gaming	Elimination	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
External revenue	1,068,235	277,695	—	1,345,930
Inter-segment revenue	—	52,552	(52,552)	—
Segment revenue	1,068,235	330,247	(52,552)	1,345,930
Segment profits	721,884	60,279	—	782,163
Unallocated corporate expenses				(83,712)
Finance costs				(50,009)
Profit before taxation				648,442

For the year ended 31 December 2012

	Gaming	Non-gaming	Elimination	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
External revenue	1,111,442	389,646	—	1,501,088
Inter-segment revenue	—	57,785	(57,785)	—
Segment revenue	1,111,442	447,431	(57,785)	1,501,088
Segment profits	704,593	1,150	—	705,743
Unallocated depreciation and release of prepaid lease payments				(37,112)
Unallocated corporate expenses				(74,533)
Finance costs				(62,862)
Profit before taxation				531,236

Inter-segment revenue is charged at amounts agreed by both parties.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the results of each segment without allocation of depreciation of investment properties and property and equipment and release of prepaid lease payments arising from the fair value adjustments on acquisition of MFW and its subsidiaries and unallocated common area in Macau Fisherman's Wharf, corporate expenses and finance costs. Corporate expenses include directors' remuneration paid or payable by the Company and certain administrative expenses for corporate use. This is the measure reported to the Directors for the purposes of resource allocation and performance assessment.

No analysis of the Group's assets and liabilities by operating and reportable segments is disclosed as it is not regularly provided to the Directors for review.

Other segment information

For the year ended 31 December 2010

	Gaming	Non-gaming	Consolidated
	HK$'000	HK$'000	HK$'000
Amounts included in the measure of segment profit:			
Depreciation of property and equipment	24,105	23,459	47,564
Depreciation of investment properties	—	3,842	3,842
Release of prepaid lease payments	—	11,734	11,734
Loss on disposal of property and equipment	—	74	74
Reversal of write down on inventories	—	(10)	(10)
Allowance for bad and doubtful debts	—	159	159

For the year ended 31 December 2011

	Gaming	Non-gaming	Consolidated
	HK$'000	HK$'000	HK$'000
Amounts included in the measure of segment profit:			
Depreciation of property and equipment	23,255	25,001	48,256
Depreciation of investment properties	—	3,841	3,841
Release of prepaid lease payments	—	11,734	11,734
Loss on disposal of property and equipment	387	82	469
Recognition of write down on inventories	—	3	3
Allowance for bad and doubtful debts	—	69	69

For the year ended 31 December 2012

	Gaming	Non-gaming	Unallocated	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
Amounts included in the measure of segment profit:				
Depreciation of property and equipment	25,791	57,409	14,021	97,221
Depreciation of investment properties	—	5,234	1,227	6,461
Release of prepaid lease payments	133	12,898	21,864	34,895
Recognition of write down of inventories	—	6,311	—	6,311
Allowance for bad and doubtful debts	—	1,216	—	1,216

Other than the segment information disclosed in above, there was no other information reviewed by the Directors for the Relevant Periods.

Geographical information

All revenue of the Group is derived from customers in Macau.

All non-current assets of the Group are located in Macau.

Information about major customers

Revenues from customer contributing over 10% of the total revenue of the Group during the Relevant Periods are as follows:

	Year ended 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Customer A	779,396[1]	944,892[1]	1,000,632[1]

[1] Revenue from gaming related services

8. OTHER INCOME, GAINS AND LOSSES

	Year ended 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Bank interest income	199	35	2,173
Credit card commission income	873	1,352	1,051
Management fee income from directors (note)	—	—	12,188
Net foreign exchange gain	949	997	1,231
Loss on disposal of property and equipment	(74)	(469)	—
Allowance for bad and doubtful debts	(159)	(69)	(1,216)
Reversal of overprovision of construction cost	—	142	13,152
Others	862	1,413	7,478
	2,650	3,401	36,057

Note: The management fee income from directors represents the provision of general management and administrative services to directors for use of the aircraft of the Group, which the Directors represented that such transaction will be ceased after the listing of the shares of the Company.

9. FINANCE COSTS

	Year ended 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Interest on bank borrowings wholly repayable within five years	17,995	50,009	62,862

10. DIRECTORS' REMUNERATION

The remuneration paid or payable to the Directors was as follows:

	Chow Kam Fai, David ("David Chow")	Melinda Chan Mei Yi ("Melinda Chan")	Lam Fong Ngo	Li Chi Keung	Kwong Ki Chi	Roderick John Sutton	Fok Hei Yu	Sheldon Trainor-DeGirolamo	Tong Ka Wing, Carl	Total
	HK$'000	HK$'000 (note 3)	HK$'000	HK$'000 (note 2)	HK$'000 (note 4)	HK$'000 (note 6)	HK$'000 (note 5)	HK$'000 (note 1)	HK$'000 (note 1)	HK$'000
For the year ended 31 December 2010										
Fee	—	—	—	—	—	—	—	—	—	—
Salaries and allowances	15,600	—	3,262	392	2,600	—	—	—	—	21,854
Performance related incentive payments	3,600	—	408	82	—	—	—	—	—	4,090
Contributions to retirement benefits scheme	—	—	—	—	—	—	—	—	—	—
Total remuneration	19,200	—	3,670	474	2,600	—	—	—	—	25,944
For the year ended 31 December 2011										
Fee	—	—	—	—	—	—	—	—	—	—
Salaries and allowances	15,600	—	3,262	874	—	—	—	—	—	19,736
Performance related incentive payments	7,409	—	476	105	—	—	—	—	—	7,990
Share-based payments	35,272	—	—	—	—	—	—	—	—	35,272
Contributions to retirement benefits scheme	—	—	—	—	—	—	—	—	—	—
Total remuneration	58,281	—	3,738	979	—	—	—	—	—	62,998
For the year ended 31 December 2012										
Fee	—	—	—	—	—	—	—	—	—	—
Salaries and allowances	15,744	—	3,406	1,018	—	—	—	—	—	20,168
Performance related incentive payments	6,608	—	476	132	—	—	—	—	—	7,216
Share-based payments	8,303	—	—	—	—	—	—	—	—	8,303
Contributions to retirement benefits scheme	—	—	—	—	—	—	—	—	—	—
Total remuneration	30,655	—	3,882	1,150	—	—	—	—	—	35,687

Notes:

1. Sheldon Trainor-DeGirolamo and Tong Ka Wing, Carl were appointed as directors on 18 May 2012.

2. Li Chi Keung was appointed as director on 20 July 2010 and resigned as director on 11 December 2012.

3. Melinda Chan was appointed as director on 20 July 2010 and resigned as director on 18 May 2012.

4. Kwong Ki Chi resigned as director on 1 May 2010.

5. Fok Hei Yu resigned as director on 20 July 2010.

6. Roderick John Sutton resigned as director on 25 May 2011.

The performance related incentive payments to the Directors are determined by reference to the Group's performance and approved by the Board of Directors.

David Chow is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

During the Relevant Periods, no remuneration was paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any remuneration during the Relevant Periods.

11. EMPLOYEES' REMUNERATION

Of the five individuals with the highest emoluments in the Group, three were Directors whose emoluments are included in the disclosures in note 10 above for the years ended 31 December 2010. For the two years ended 31 December 2011 and 2012, the five individuals with the highest emoluments in the Group include two Directors. The emoluments of the remaining individuals for the Relevant Periods were as follows:

	Year ended 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Salaries, allowances and benefits	3,728	3,807	3,832
Performance related incentive payments	380	524	555
Contributions to retirement benefits scheme	—	—	—
	4,108	4,331	4,387

Their emoluments were within the following bands.

	Year ended 31 December		
	2010	2011	2012
	No. of employees	No. of employees	No. of employees
HK$1,000,001 to HK$1,500,000	—	2	2
HK$1,500,001 to HK$2,000,000	1	1	1
HK$2,500,001 to HK$3,000,000	1	—	—
	2	3	3

During the Relevant Periods, no emoluments were paid by the Group to the remaining individuals with the highest emoluments as an inducement to join or upon joining the Group or as compensation for loss of office.

12. PROFIT BEFORE TAXATION

	Year ended 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Profit before taxation has been arrived at after charging (crediting):			
Auditor's remuneration	1,460	1,460	1,962
Listing expenses	—	11,200	11,500
Staff costs			
Directors' remuneration	25,944	62,998	35,687
Other staff costs			
— salaries and other benefits	139,964	137,789	195,000
— contributions to retirement benefits schemes	316	238	723
	166,224	201,025	231,410
Depreciation of investment properties	3,842	3,841	6,461
Depreciation of property and equipment	47,564	48,256	97,221
Release of prepaid lease payments	11,734	11,734	34,895
Operating lease rentals in respect of leasehold land and buildings	4,618	4,565	6,366
(Reversal) recognition of write down on inventories	(10)	3	6,311
Cost of inventories recognized as an expense	27,165	31,780	59,972
Gross licensing income from investment properties	(28,243)	(33,949)	(48,948)
Less: Direct operating expenses that generate licensing income	3,842	3,841	6,461
Net licensing income	(24,401)	(30,108)	(42,487)

13. TAXATION

	Year ended 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Deferred taxation credit (note 31)	—	—	4,105

Macau Complementary Tax is calculated at the maximum progressive rate of 12% on the estimated assessable profit for the year. No provision for Macau Complementary Tax and Hong Kong Profits Tax has been made in the Financial Information as the relevant group entities either incurred tax losses or the estimated assessable profits were fully absorbed by tax losses brought forward from prior years.

Pursuant to the Dispatch of the Macau Financial Services Bureau dated 17 November 2006 and a confirmation letter issued by the Macau Financial Services Bureau dated 14 January 2013, gaming related revenue generated from Service Agreement is not subject to Macau Complementary Tax since it is derived from SJM gaming revenue, which gaming revenue is exempted pursuant to the terms of no. 2 of article 28 of the Law 16/2001 and the exemption granted by Dispatch no. 30/2004 of 23 February 2004 and further by Dispatch no. 378/2011 of 23 November 2011.

The taxation for the Relevant Periods can be reconciled to the profit before taxation per the consolidated statements of comprehensive income as follows:

	Year ended 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Profit before taxation	497,172	648,442	531,236
Taxation at Macau Complementary Tax rate at 12%	59,661	77,813	63,748
Tax effect of expenses not deductible for tax purpose	46,342	49,747	53,317
Tax effect of income not taxable for tax purpose	(105,135)	(129,049)	(135,919)
Tax effect of estimated tax losses not recognized	—	1,489	14,749
Tax effect of utilization of tax losses not recognized	(868)	—	—
Taxation credit	—	—	(4,105)

As at 31 December 2010, 2011 and 2012, the Group has tax losses of HK$106,125,000, HK$106,317,000 and HK$337,908,000 respectively from non-gaming operations available for offset against future profit that will expire in three years from the year of assessment. The tax losses increased by HK$209,826,000 upon acquisition of MFW in May 2012.

During the years ended 31 December 2010, 2011 and 2012, approximately HK$79,645,000, HK$12,215,000, HK$101,143,000 of tax losses have expired.

Having considered (i) the unpredictability of future profit streams for the non-gaming operations; and (ii) the fact that tax losses can only be utilized in three years from the year of assessment, the Directors are of the view that it may not be probable that taxable profits will be available against which unutilized tax losses can be utilized. As a result, no deferred tax assets have been recognized.

14. DIVIDENDS

No dividend was paid or proposed during the Relevant Periods. A dividend of approximately HK$2,446,583,000 has been declared by the Company to its then shareholders in June 2013. Details are set out in Section B "Subsequent Events".

15. BASIC EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

Earnings

	Year ended 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Profit for the year for the purpose of basic earnings per share	497,172	648,442	535,341

Number of shares

	Year ended 31 December		
	2010	2011	2012
	'000	'000	'000
Weighted average number of shares			
— Ordinary shares	1,865,125	2,192,823	4,520,315
— Preferred Shares	1,514,050	1,186,352	—
Weighted average number of shares for the purpose of basic earnings per share	3,379,175	3,379,175	4,520,315

The Group did not have any dilutive potential shares during the year ended 31 December 2010.

For the two years ended 31 December 2011 and 2012, diluted earnings per share is not presented in relation to the assumed exercise of the Company's share options and shares awarded to David Chow (note 40) since it is impracticable to ascertain the average fair value of the Company's share.

16. INVESTMENT PROPERTIES

	HK$'000
COST	
At 1 January 2010, 31 December 2010 and 2011	192,031
Acquired on acquisition of subsidiaries (note 42)	138,000
At 31 December 2012	330,031
DEPRECIATION	
At 1 January 2010	50,825
Provided for the year	3,842
At 31 December 2010	54,667
Provided for the year	3,841
At 31 December 2011	58,508
Provided for the year	6,461
At 31 December 2012	64,969
CARRYING AMOUNTS	
At 31 December 2010	137,364
At 31 December 2011	133,523
At 31 December 2012	265,062

The above investment properties are depreciated on a straight line basis over 50 years.

All the Group's investment properties are held for leasing purpose under operating leases and are situated on land in Macau under medium-term lease.

As at 31 December 2010, 2011 and 2012, the fair values of the Group's investment properties together with the leasehold interest in land included in the Group's prepaid lease payments amounted to HK$666,400,000, HK$946,000,000 and HK$2,483,000,000 respectively. The fair values had been determined by management estimation and the valuations were determined by reference to recent market prices for similar properties.

As at 31 December 2010, 2011 and 2012, all the Group's investment properties were pledged to banks to secure the bank borrowings granted to the Group. Details are set out in notes 29 and 34.

17. PROPERTY AND EQUIPMENT

	Buildings	Aircraft	Furniture, fixtures and equipment	Leasehold improvements	Motor vehicles	Machinery	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST								
At 1 January 2010	586,116	—	58,973	371,383	1,315	231,013	14,690	1,263,490
Additions	—	—	8,422	11,743	—	959	1,820	22,944
Disposals	—	—	(249)	(4)	—	(32)	—	(285)
At 31 December 2010	586,116	—	67,146	383,122	1,315	231,940	16,510	1,286,149
Additions	—	97,500	440	13,298	—	672	3,075	114,985
Disposals	—	—	(7,136)	(15,156)	—	(4,596)	(14,850)	(41,738)
At 31 December 2011	586,116	97,500	60,450	381,264	1,315	228,016	4,735	1,359,396
Additions	420	—	3,083	2,841	—	499	2,265	9,108
Disposals	—	—	(794)	(277)	—	(64)	—	(1,135)
Acquired on acquisition of subsidiaries (note 42)	1,276,286	—	289,263	38,714	4,557	33,180	45,615	1,687,615
At 31 December 2012	1,862,822	97,500	352,002	422,542	5,872	261,631	52,615	3,054,984
DEPRECIATION								
At 1 January 2010	75,606	—	33,128	323,088	789	172,809	—	605,420
Provided for the year	11,891	—	7,372	20,460	131	7,710	—	47,564
Eliminated on disposals	—	—	(196)	(4)	—	(11)	—	(211)
At 31 December 2010	87,497	—	40,304	343,544	920	180,508	—	652,773
Provided for the year	11,891	5,078	6,519	16,647	131	7,990	—	48,256
Eliminated on disposals	—	—	(6,704)	(15,156)	—	(4,559)	—	(26,419)
At 31 December 2011	99,388	5,078	40,119	345,035	1,051	183,939	—	674,610
Provided for the year	32,923	12,188	20,400	18,934	759	12,017	—	97,221
Eliminated on disposals	—	—	(490)	(253)	—	(57)	—	(800)
At 31 December 2012	132,311	17,266	60,029	363,716	1,810	195,899	—	771,031
CARRYING AMOUNTS								
At 31 December 2010	498,619	—	26,842	39,578	395	51,432	16,510	633,376
At 31 December 2011	486,728	92,422	20,331	36,229	264	44,077	4,735	684,786
At 31 December 2012	1,730,511	80,234	291,973	58,826	4,062	65,732	52,615	2,283,953

According to the Service Agreement, gaming machinery (included in the class "machinery") has to be returned to the Macau Government at no cost upon the expiry of SJM concession contract in year 2020.

The above items of property and equipment, except for construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the term of the lease or 50 years
Aircraft	12.5%
Furniture, fixtures and equipment	5%–50%
Leasehold improvements	10%–33%
Motor vehicles	10%–25%
Machinery	5%–15%

The Group's buildings are situated on land in Macau under medium-term lease.

As at 31 December 2010, 2011 and 2012, all the Group's buildings are pledged to banks to secure the bank borrowings granted to the Group. Details are set out in notes 29 and 34.

During the Relevant Periods, the Directors consider no impairment loss is required in respect of the Group's property and equipment.

18. PREPAID LEASE PAYMENTS

	As at 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
The Group's prepaid lease payments comprise:			
Medium-term leasehold land in Macau	471,002	459,268	1,828,335
Analyzed for reporting purposes as:			
Current asset	11,734	11,734	49,969
Non-current asset	459,268	447,534	1,778,366
	471,002	459,268	1,828,335

As at 31 December 2010, 2011 and 2012, all the Group's prepaid lease payments were pledged to banks to secure the bank borrowings granted to the Group. Details are set out in notes 29 and 34.

As at 31 December 2012, the Group's prepaid lease payments included a premium of HK$1,288,873,000 arising from acquisition of prepaid lease payment through acquisition of MFW as set out in note 42.

Pursuant to the Macau Official Gazette dated 26 September 2012, MFW accepted the terms and conditions of revised land concession contract, in which MFW agreed to pay land premium of MOP208,658,000 (equivalent to approximately HK$202,581,000) as consideration for revising the land area covered and the change of use of the land. Details of the revised land concession contract was disclosed in section headed "Business- Properties- Macau Fisherman's Wharf" in the Prospectus. As at 31 December 2012, land premium of MOP70,000,000 (equivalent to approximately HK$67,962,000) was paid. Remaining land premium of MOP138,658,000 (equivalent to approximately HK$134,619,000) will be paid semi-annually by six equal instalments starting from date of Macau Official Gazette.

19. INVESTMENTS IN SUBSIDIARIES

	As at 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Investments in subsidiaries, at cost	527,312	527,312	4,247,005

20. GOODWILL

	HK$'000
COST AND CARRYING VALUE	
At 1 January 2010, 31 December 2010 and 2011	—
Arising on acquisition of subsidiaries (note 42)	681,986
At 31 December 2012	681,986

The impairment testing on goodwill is disclosed in note 21.

21. IMPAIRMENT TESTING

Goodwill arose from the acquisition of MFW and its subsidiaries ("MFW Group") are detailed in note 42. The MFW Group operates Macau Fisherman's Wharf, a waterfront integrated gaming, hotel, convention and entertainment complex. The carrying amount of goodwill had been allocated to the business relating to provision of gaming related facilities and gaming related general management services carried out by the MFW Group. Management considered this as a single CGU for the purpose of impairment testing of the goodwill.

The recoverable amount of this CGU is determined based on value in use calculations. The key assumptions for the value in use calculations include discount rates, growth rates and expected changes to revenue and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are estimated by reference to the industry growth forecasts. Changes in revenue and direct costs are based on past practices and expectations of future changes in the market.

The Group prepared cash flows forecasts derived from the most recent financial budgets approved by management for the next five years. Cash flows beyond five years are extrapolated using a steady 2% growth rate for CGU. This growth rate does not exceed the average long-term growth rate for the relevant industry. The rate used to discount the forecast cash flows for CGU is 12% per annum. In the opinion of the Directors, no impairment loss is required for the year ended 31 December 2012. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of CGU to exceed the aggregate recoverable amount of CGU.

22. INVESTMENT DEPOSIT

On 20 December 2006, Hong Hock and New Macau Landmark entered into a conditional sale and purchase agreement with the shareholders of MFW for acquisition of the entire equity interest in MFW (the "2006 Agreement"). Pursuant to the 2006 Agreement, the Group paid a non-refundable deposit of HK$200,000,000 to the shareholders of MFW on 20 December 2006.

The parties did not complete the 2006 Agreement. The investment deposit became deductible from the total consideration in the 2012 Agreement (as defined below).

On 18 May 2012, the Group entered into another agreement with the shareholders of MFW to acquire the entire equity interest in MFW (the "2012 Agreement"). The investment deposit of HK$200,000,000 was utilized as part of the consideration under this agreement. Further details of this acquisition are set out in note 42.

23. INVENTORIES

	As at 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Food and beverage	4,661	4,584	9,867
Retail merchandise	573	680	14,229
Operating supplies	207	227	3,636
	5,441	5,491	27,732

24. TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Trade receivables	241,857	328,508	175,797
Less: Allowance for doubtful debts	(2,901)	(2,960)	(4,176)
	238,956	325,548	171,621
Other receivables	8,559	9,668	8,985
Prepayments	1,899	1,730	13,352
Receivables from gaming operator received on behalf of gaming promoters	64,726	78,369	272,632
Amount due from a gaming promoter	41,701	—	—
Total trade and other receivables	355,841	415,315	466,590

The receivables from gaming operator and amount due from a gaming promoter on the Group's own account are non-trading nature, unsecured, non-interest bearing and repayable on demand.

As at 31 December 2010, 2011 and 2012, included in the Group's trade receivables balance are aggregate carrying amount of HK$2,358,000, HK$3,719,000 and HK$5,204,000 respectively, which are due from directors in relation to hotel services provided by the Group to them. Such amounts due from directors are unsecured, non-interest bearing and repayable on demand.

Before accepting any new customers, the Group assesses the potential customer's credit quality by evaluating their historical credit records and defines credit limits by customers. Recoverability and credit limit of the existing customers are reviewed by the Group regularly. Included in the Group's trade receivable balances are receivables with aggregate carrying amount of HK$13,672,000, HK$93,416,000 and HK$98,584,000 as at 31 December 2010, 2011 and 2012 respectively, which are neither past due nor impaired. The Directors considered that trade receivables which are neither past due nor impaired are of good credit quality given the continuous subsequent settlements from gaming operator and other customers.

The Group allows a credit period with an average of 30 days to the gaming operator relating to provision of gaming related services, an average of 30 days to certain hotel guests and an average of 15 days to its tenants. The following is an aged analysis of trade receivables net of allowance for bad and doubtful debts presented based on the invoice date at the end of the reporting period.

	As at 31 December		
	2010	**2011**	**2012**
	HK$'000	**HK$'000**	**HK$'000**
Within 3 months	20,324	116,036	107,609
Over 3 months but within 6 months	46,944	23,427	2,625
Over 6 months but within 1 year	92,956	21,362	1,857
Over 1 year	78,732	164,723	59,530
	238,956	325,548	171,621

As at 31 December 2010, 2011 and 2012, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$225,284,000, HK$232,132,000 and HK$73,037,000 respectively, which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The trade receivables which are past due but not impaired were either subsequently settled up to the date of this report or due from debtors which do not have historical default of payments. The Group does not hold any collateral over these balances.

Aged analysis of trade receivables which are past due but not impaired

	As at 31 December		
	2010	**2011**	**2012**
	HK$'000	**HK$'000**	**HK$'000**
Over 1 month but within 3 months	6,652	22,620	9,025
Over 3 months but within 6 months	46,944	23,427	2,625
Over 6 months but within 1 year	92,956	21,362	1,857
Over 1 year	78,732	164,723	59,530
	225,284	232,132	73,037

Movement in the allowance for bad and doubtful debts

	As at 31 December		
	2010	**2011**	**2012**
	HK$'000	**HK$'000**	**HK$'000**
Balance at beginning of the year	2,848	2,901	2,960
Impairment losses recognized on receivables	159	69	1,216
Amount written off	(106)	(10)	—
Balance at end of the year	2,901	2,960	4,176

As at 31 December 2010, 2011 and 2012, included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of HK$2,901,000, HK$2,960,000 and HK$4,176,000 respectively which are either aged over one year or placed under liquidation or in severe financial difficulty. In determining the recoverability of a trade receivable, the Group considers any change in credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period. The Directors believe that no further credit provision is required in excess of the allowance for bad and doubtful debts.

As at 31 December 2010, 2011 and 2012, the carrying amount of the trade receivables, which have been pledged to banks to secure the bank borrowings granted to the Group, is HK$72,692,000, HK$68,328,000 and HK$73,274,000 respectively. Details are set out in notes 29 and 34.

25. AMOUNTS DUE FROM (TO) DIRECTORS/SHAREHOLDERS/SUBSIDIARIES

The amounts due from directors (including existing and former directors) and shareholders are non-trading in nature, unsecured, non-interest bearing and repayable on demand. At the end of each reporting period, as represented by the Directors, the amounts are expected to be repayable within twelve months from the end of respective reporting periods and as such, the amounts are classified as current assets. The amounts due to a director and subsidiaries are non-trading in nature, unsecured, non-interest bearing and repayable on demand.

On 5 June 2013, all the amounts due from directors and shareholders are set-off by dividend payable by the Company to shareholders. For details of the dividend and set-off arrangement, please refer to Section B "Subsequent Events".

Amounts due from directors and shareholders disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	As at 31 December			Maximum amount outstanding during the year ended 31 December		
	2010	2011	2012	2010	2011	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Directors						
David Chow	180,000	539,510	1,059,159	180,000	889,510	1,059,159
Lam Fong Ngo	150,000	260,000	487,284	150,000	560,000	487,284
Li Chi Keung (Note 1)	—	20,000	425,310	—	370,000	425,310
	330,000	819,510	1,971,753			
Shareholders						
All Landmark Properties Limited (Note 2)	—	164,890	164,890	—	164,890	164,890
Grand Bright Holdings Limited (Note 3)	—	33,865	33,865	—	33,865	33,865
Elite Success Investments Limited (Note 4)	—	39,510	39,510	—	39,510	39,510
	—	238,265	238,265			

Notes:

1. Li Chi Keung resigned as director on 11 December 2012.

2. The company is controlled by David Chow.

3. The company is controlled by Lam Fong Ngo.

4. The company is controlled by Li Chi Keung and his spouse.

26. AMOUNTS DUE FROM (TO) RELATED COMPANIES

The amounts due from (to) related companies are unsecured and non-interest bearing. For non-trading balances, they are repayable on demand. For trade balances, the Group allows an average credit period of 3 months to its related companies.

All the amounts due from related companies (non-trading) are settled subsequent to 31 December 2012.

Details of amounts due from related companies are stated as follows:

	As at 31 December			Maximum amount outstanding during the year ended 31 December		
	2010	2011	2012	2010	2011	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trading						
MFW (Note 2)	7,888	9,297	—			
Grand Merit (Note 2)	74	340	—			
北京華海金寶房地產開發有限公司 (Note 3)	—	48	39			
	7,962	9,685	39			
Non-trading						
The Legend Club Limited (Note 1)	—	1	2	2	1	2
Macau Landmark Management Limited (Note 4)	1,455	—	—	3,064	1,455	—
MFW (Note 2)	304,126	304,414	—	304,126	304,414	656,002
Legend Development Company Limited (Note 5)	—	19,862	19,862	—	19,862	19,862
	305,581	324,277	19,864			
Amounts due from related companies	313,543	333,962	19,903			

Notes:

1. The related company is wholly owned by David Chow, Lam Fong Ngo (together with her associates) and Li Chi Keung and his spouse.

2. The related companies were significantly influenced by David Chow, Lam Fong Ngo and Li Chi Keung who indirectly owned a total of 49% equity interest in these related companies as at 31 December 2010 and 2011.

3. The related company is significantly influenced by David Chow and his spouse through shareholding.

4. The related company is wholly owned by David Chow, Lam Fong Ngo and Li Chi Keung.

5. The related company is wholly owned by David Chow and his spouse.

Aged analysis of amounts due from related companies (trading)

	As at 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Within 3 months	2,147	3,940	—
Over 3 months but within 6 months	108	—	—
Over 6 months but within 1 year	—	154	39
Over 1 year	5,707	5,591	—
	7,962	9,685	39

As at 31 December 2010, 2011 and 2012, included in the Group's amounts due from related companies (trading) are debtors with aggregate carrying amount of HK$5,815,000, HK$5,745,000 and HK$39,000 respectively, which are past due as at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Aged analysis of amounts due from related companies (trading) which are past due but not impaired

	As at 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Over 3 months but within 6 months	108	—	—
Over 6 months but within 1 year	—	154	39
Over 1 year	5,707	5,591	—
	5,815	5,745	39

Details of the amounts due to related companies are stated as follows:

	As at 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Trading			
Grant Merit	16	—	—
Non-trading			
The Legend Club Limited	159	70	—
Macau Landmark Management Limited	58,540	105,519	105,562
MFW	—	59	—
	58,699	105,648	105,562
Amounts due to related companies	58,715	105,648	105,562

The Group's relationship with the above related companies is explained in above.

As at 31 December 2010, the trade balance due to a related company was aged within 3 months with credit term of 3 months.

27. PLEDGED BANK DEPOSITS, BANK BALANCES AND CASH

As at 31 December 2010, pledged bank deposit represents deposit pledged to the bank to secure the long term bank loan of the Group, carried at an average fixed interest rate of 0.14% per annum.

As at 31 December 2012, pledged bank deposits represent deposits pledged to banks as security for use of electricity granted by a third party to the MFW Group and for the arrangement of letter of credit of the MFW Group. The balance is carried at an average fixed interest rate of 0.22% per annum as at 31 December 2012.

Bank balances and cash comprise cash held by the Group and short-term bank deposits at variable interest rates with an original maturity of three months or less. As at 31 December 2010, 2011 and 2012, the average interest rates are 0.01%, 0.01% and 0.01% per annum respectively.

As at 31 December 2010, 2011 and 2012, included in bank balances and cash are restricted bank balance of HK$24,464,000, HK$66,042,000 and HK$33,236,000 respectively. Pursuant to the banking facilities agreements with a bank, the Group is required to deposit all operating income and revenue generated from The Landmark Macau into designated bank accounts. In case, the bank borrowings become due, the bank can apply all deposits in the designated bank accounts for the payment and discharge of all financial indebtedness created under these banking facilities agreements.

28. TRADE AND OTHER PAYABLES

Trade and other payables principally comprise amounts outstanding for ongoing costs and construction work. The average credit period granted by the Group's creditors is 1 month to 3 months.

	As at 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Trade payables	66,742	57,449	78,711
Deposits received from tenants	10,875	12,214	36,049
Accrued staff costs	45,386	47,011	69,692
Other accruals	10,806	25,771	31,630
Other payables	6,086	9,501	33,152
Amounts due to gaming promoters	—	97,095	291,993
Total trade and other payables	139,895	249,041	541,227

The amounts due to gaming promoters on the Group's own account are non-trading in nature, unsecured, non-interest bearing and repayable on demand.

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	As at 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Within 3 months	21,814	17,835	40,767
Over 3 months but within 6 months	4,003	—	411
Over 6 months but within 12 months	1,680	379	798
Over 1 year	39,245	39,235	36,735
	66,742	57,449	78,711

29. BANK BORROWINGS

	As at 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Bank borrowings — secured	728,562	1,728,649	1,738,327
Secured bank borrowings due			
— within one year	171,432	272,423	333,802
— more than one year, but not exceeding two years	171,432	227,845	355,802
— more than two years, but not more than five years	385,698	1,228,381	1,048,723
	728,562	1,728,649	1,738,327
Less: Amount due within one year shown under current liabilities	(171,432)	(272,423)	(333,802)
Amount due after one year	557,130	1,456,226	1,404,525

The bank borrowings are denominated in Hong Kong dollars.

As at 31 December 2010 and 2011, the bank borrowings bear interests at HIBOR plus 2% per annum and HIBOR plus 3% per annum respectively. As at 31 December 2012, the bank borrowings bear interests at HIBOR plus 3% per annum and Macau prime rate minus 1%. The weighted average effective interest rates as at 31 December 2010, 2011 and 2012 are 2.21%, 3.54% and 3.63% per annum respectively.

The Group's bank borrowings as at 31 December 2010 are secured and guaranteed by the following:

(a) the mortgage over the investment properties, buildings and prepaid lease payments related to The Landmark Macau as set out in notes 16, 17 and 18;

(b) all the assets of a subsidiary, New Macau Landmark;

(c) all the designated bank balances held by two subsidiaries, Hong Hock and New Macau Landmark. Details are set out in note 27;

(d) a time deposit held by New Macau Landmark for an amount not less than HK$50,000,000 or 2 months' installment, whichever is higher;

(e) all the shares of New Macau Landmark, which are beneficially held by Hong Hock;

(f) the personal guarantees with an aggregate amount of HK$1,200,000,000 from David Chow, Lam Fong Ngo and Li Chi Keung;

(g) a promissory note of HK$1,200,000,000 endorsed by David Chow, Lam Fong Ngo and Li Chi Keung;

(h) all rights and interests over the management contracts, leases, licences, rental income, rental deposits and all other income of the pledged properties; and

(i) all receivables arising from leases, rental income, disposal, hotel operations and other proceeds of the pledged properties.

The Group's bank borrowings as at 31 December 2011 and 31 December 2012 are secured and guaranteed by the following:

(a) the mortgage over the investment properties, buildings and prepaid lease payments as set out in notes 16, 17 and 18;

(b) all the assets of two subsidiaries, New Macau Landmark and Hong Hock;

(c) all the designated bank balances held by two subsidiaries, Hong Hock and New Macau Landmark. Details are set out in note 27;

(d) all the shares of two subsidiaries, New Macau Landmark and Hong Hock;

(e) the personal guarantees with an aggregate amount of HK$1,800,000,000 from David Chow and Li Chi Keung;

(f) a promissory note of HK$1,800,000,000 endorsed by David Chow and Li Chi Keung as at 31 December 2011, with additional promissory note of HK$330,000,000 endorsed by David Chow and Li Chi Keung as at 31 December 2012;

(g) a corporate guarantee of Hong Hock as guarantor to guarantee punctual payment and performance;

(h) all rights and interests in leases, tenancy agreements, proceeds from hotel operation and management, rental income and other proceeds of the pledged properties; and

(i) all receivables arising from leases, rental income, disposal, hotel operations and other proceeds of the pledged properties.

The Directors represent that the personal guarantees from shareholders will be released by bank upon listing of the shares of the Company.

30. OTHER FINANCIAL LIABILITIES

	As at 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Dividend payable			
Balance at beginning of the year	3,033,409	3,033,409	—
Set off against amounts due from directors	—	(1,000,000)	—
Dividends waived by shareholders	—	(2,033,409)	—
Balance at end of the year	3,033,409	—	—
Coupon payable			
Balance at beginning of the year	—	—	—
Coupon payments to a non-controlling shareholder	—	—	15,200
Coupon paid	—	—	(5,148)
Balance at end of the year	—	—	10,052
Total other financial liabilities	3,033,409	—	10,052

Dividend payable

Pursuant to a shareholders' agreement entered into among the Company and all its shareholders on 20 December 2006 (the "Shareholders' Agreement") in connection with the Reorganization, holders of the Preferred Shares and ordinary shares are entitled to receive specified amounts of dividends, payable semi-annually for the period from January 2007 to December 2009, as stipulated in the Shareholders' Agreement. Holders of the Preferred Shares shall have priority over holders of the ordinary shares in receiving the dividends. Any unpaid dividends will be carried over to the next dividend period until they are fully paid.

At initial recognition, other financial liabilities represent the Company's contractual obligation to deliver cash of an aggregate amount of HK$3,439,400,000 relating to the dividend entitlement granted to holders of the Preferred Shares and ordinary shares as described in above. At initial recognition, the other financial liabilities are measured at the present value of the aforesaid dividend entitlement amounting to HK$3,005,729,000 at a discount rate of 6% per annum, of which an amount of HK$208,935,000 has been deducted from share premium and the remaining amount of HK$2,796,794,000 has been accounted for as a deemed distribution in special reserve in equity of the Group. Other financial liabilities are measured at amortized cost in subsequent reporting periods. As at 31 December 2010, the carrying amounts of other financial liabilities are unsecured, interest-free and have been accreted to the principal amount of unpaid dividend payables amounting to HK$3,033,409,000.

Pursuant to the deeds of waiver entered into among the Company and its shareholders which entitled the above dividends, it was mutually agreed between the Company and the shareholders on 13 October 2011 to (i) set off dividend payables of HK$1,000,000,000 against amounts due from directors at the same amount; and (ii) unconditionally waive any and all rights and entitlements to the remaining dividend payables of HK$2,033,409,000, as such, the amount was reversed to special reserve in equity.

Coupon payable

On 30 August 2012, David Chow, Lam Fong Ngo, Li Chi Keung and Chan Un Chan, shareholders of the Company, entered into a share purchase agreement with Vast Field Investments Limited ("Vast Field") to dispose of a 4% equity interest of the Company to Vast Field. In accordance with the share purchase agreement, the Company issued a promissory note to Vast Field and promised to pay coupon payments to Vast Field for a total amount up to HK$15,200,000 payable on a monthly basis (being approximately HK$1,267,000 per month) in arrear, commencing from 30 August 2012 and ending on either date of listing of the shares of the Company or 30 August 2013, whichever is earlier. Such coupon payment to shareholder of HK$15,200,000 was recognized as deemed distribution in special reserve in equity. During the year ended 31 December 2012, HK$5,148,000 was paid as coupon to Vast Field and the same amount was transferred from special reserve to retained earnings/accumulated losses in equity.

31. DEFERRED TAX LIABILITY

The following is the deferred tax liability recognized and movements thereon during the Relevant Periods.

	Fair value adjustment on investment properties	Fair value adjustment on property and equipment	Fair value adjustment on prepaid lease payments	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010, 31 December 2010 and 2011	—	—	—	—
Acquisition of subsidiaries (note 42)	4,623	42,911	154,665	202,199
Credit to profit or loss	(118)	(1,372)	(2,615)	(4,105)
At 31 December 2012	4,505	41,539	152,050	198,094

The Company's exemption from Macau Complementary Tax as set out in note 13 does not apply to the dividends to be distributed by its Macau subsidiaries. The Company is subject to Macau Complementary Tax at a progressive rate of up to a maximum of 12% for dividends it receives from Macau subsidiaries. Accordingly, the Company is required to recognize deferred tax liabilities for taxable temporary differences associated with its investments in Macau subsidiaries except where the Company will be able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

As at 31 December 2010, 2011, 2012, the aggregate amount of temporary differences associated with the undistributed earnings of Macau subsidiaries were approximately HK$1,955,214,000, HK$2,681,268,000, HK$3,376,681,000, respectively. Based on the business plan of the Group and dividend distribution plan of Macau subsidiaries, the management of the Company has represented to us that a majority potion of the distributable profits of Macau subsidiaries would be retained for development purpose and will not be distributed in the foreseeable future, and that the tax effect on dividends to be distributed by its Macau subsidiaries is not expected to be material. As a result, the Company has not recognized deferred tax liability in respect of such temporary differences.

32. SHARE CAPITAL

	Number of shares		Share capital		
	Ordinary shares	Preferred Shares	Ordinary shares of HK$0.1 each	Preferred Shares of HK$0.1 each	Total
		(note 1)	HK$'000 (note 4)	HK$'000	HK$'000
Authorized:					
At 1 January 2010 and 31 December 2010	3,366,550,000	3,785,125,000	336,655	378,513	715,168
Increase on 14 October 2011 (note 2)	12,624,563	—	1,262	—	1,262
Reclassification on 14 October 2011 (note 3)	3,785,125,000	(3,785,125,000)	378,513	(378,513)	—
At 31 December 2011 and 2012	7,164,299,563	—	716,430	—	716,430
Issued:					
At 1 January 2010 and 31 December 2010	1,865,124,563	1,514,050,000	186,512	151,405	337,917
Issue of shares (note 40(b))	12,671,905	—	1,268	—	1,268
Conversion of Preferred Shares to ordinary shares (note 2)	1,514,050,000	(1,514,050,000)	151,405	(151,405)	—
At 31 December 2011	3,391,846,468	—	339,185	—	339,185
Issue of shares as consideration for acquisition of subsidiaries (note 42)	1,834,873,063	—	183,487	—	183,487
At 31 December 2012	5,226,719,531	—	522,672	—	522,672

Notes:

1. The Preferred Shares are non-redeemable. The Preferred Shares are mandatorily converted into same number of ordinary shares without any exercise cost upon the earlier of the date (a) on which holders of the Preferred Shares shall have received all their dividend entitlements from January 2007 to December 2009, or (b) the proposed initial public offering of the Company's shares. The holders of both Preferred Shares and ordinary shares have same voting rights in the shareholders' meeting. The holders of Preferred Shares shall have priority over holders of ordinary shares in receiving dividends.

2. On 14 October 2011, all shareholders of ordinary shares and Preferred Shares passed resolutions to (i) increase the authorized ordinary share capital by 12,624,563 ordinary shares to 3,379,174,563 ordinary shares; and (ii) converted all issued Preferred Shares of 1,514,050,000 into an equal number of ordinary shares.

3. On 14 October 2011, the shareholders of ordinary shares passed resolutions to re-classify and re-designate all the authorized Preferred Shares to ordinary shares.

4. The ordinary shares issued during the Relevant Periods rank *pari passu* with the then existing ordinary shares in all respects.

33. RESERVES OF THE COMPANY

	Share premium	Other reserve	Special reserve	Share options reserve	Accumulated losses	Total
	HK$'000	HK$'000 (note)	HK$'000 (note 30)	HK$'000	HK$'000	HK$'000
At 1 January 2010	36,497	202,312	(2,796,794)	—	(529,858)	(3,087,843)
Loss and total comprehensive expense for the year	—	—	—	—	(13,810)	(13,810)
At 31 December 2010	36,497	202,312	(2,796,794)	—	(543,668)	(3,101,653)
Loss and total comprehensive expense for the year	—	—	—	—	(64,243)	(64,243)
Issue of new shares (note 40(b))	15,338	—	—	—	—	15,338
Waive of dividend payables (note 30)	—	—	2,033,409	—	—	2,033,409
Transfer upon waive of dividend payables	—	—	763,385	—	(763,385)	—
Share-based payments (note 40(a))	—	—	—	18,666	—	18,666
At 31 December 2011	51,835	202,312	—	18,666	(1,371,296)	(1,098,483)
Loss and total comprehensive expense for the year	—	—	—	—	(36,217)	(36,217)
Share-based payments (note 40(b))	8,303	—	—	—	—	8,303
Issue of shares as consideration for acquisition of subsidiaries (note 42)	3,336,206	—	—	—	—	3,336,206
Deemed distribution to a non-controlling shareholder (note 30)	—	—	(15,200)	—	—	(15,200)
Coupon paid (note 30)	—	—	5,148	—	(5,148)	—
At 31 December 2012	3,396,344	202,312	(10,052)	18,666	(1,412,661)	2,194,609

Note: The other reserve represents the difference between the consolidated shareholders' fund of the subsidiaries acquired by the Company and the nominal value of the shares of the Company issued for the acquisition at the time of Reorganization, less dividends distributed from pre-reorganization reserves of the subsidiaries.

34. PLEDGE OF ASSETS

At the end of the reporting period, the Group has pledged certain trade receivables, bank deposits, buildings, investment properties and prepaid lease payments to secure the credit facilities and use of electricity granted to the Group. The carrying amounts of the assets pledged are as follows:

	As at 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Trade receivables	72,692	68,328	73,274
Pledged bank deposits	50,000	—	20,581
Buildings	498,619	486,728	1,730,511
Investment properties	137,364	133,523	265,062
Prepaid lease payments	471,002	459,268	1,828,335
	1,229,677	1,147,847	3,917,763

35. RETIREMENT BENEFITS PLANS

Employees employed by the Group's operations in Macau are members of government-managed retirement benefits schemes operated by the Macau government. The Macau operations are required to pay a monthly fixed contribution to the retirement benefits schemes to fund the benefits.

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") under the rules and regulations of the Mandatory Provident Fund Schemes Ordinance for all its employees in Hong Kong. All the employees of the Group in Hong Kong are required to join the MPF Scheme. Contributions are made based on a percentage of the employees' salaries and are charged to the consolidated statement of comprehensive income as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. No forfeited contribution is available to reduce the contribution payable in the future years as at 31 December 2010, 2011 and 2012.

The only obligation of the Group with respect to the above retirement benefits schemes is to make the required contributions under the schemes.

36. OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting periods, the Group had commitments for future minimum lease payments in respect of land, office properties, warehouse and staff quarters rented under non-cancellable operating leases which fall due as follows:

	As at 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Within one year	622	1,521	48,708
In the second to fifth year inclusive	—	—	91,012
	622	1,521	139,720

Operating lease payments represent rentals payable by the Group for certain of its land (see note 18), office properties, warehouse and staff quarters. Leases for the office properties, warehouse and staff quarters are negotiated for an average term of two years and rentals are fixed for an average term of two years.

The Group as lessor

At the end of the reporting periods, the Group had contracted with tenants for the following future minimum lease payments:

	As at 31 December		
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Within one year	23,047	28,093	70,905
In the second to fifth year inclusive	44,643	42,410	187,381
Over five years	1,027	—	83,355
	68,717	70,503	341,641

Operating lease income represents licencing income receivable by the Group from certain of its rented premises. Licencing arrangements are negotiated for an average term of five years and licencing fees are fixed for an average term of two years. As at 31 December 2012, in addition to the fixed licencing income which are disclosed above, pursuant to the terms of certain licencing arrangements, the MFW Group has licencing income based on certain percentage of gross sales of relevant shop. The contingent licensing income contributed an insignificant amount of licencing income earned by the Group during the Relevant Periods.

37. CAPITAL COMMITMENTS

The Group is committed to acquire the entire equity interest in MFW as at 31 December 2010 and 2011 pursuant to the 2006 Agreement set out in note 22.

As at 31 December 2012, the Group had capital commitments in respect of the acquisition of property and equipment and construction in progress which are contracted for but not provided of HK$20,227,003.

As at 31 December 2012, the Group had capital commitments which are authorized but not contracted for in respect of (i) renovation work of The Landmark Macau of approximately HK$429,000,000; and (ii) redevelopment plan of Macau Fisherman's Wharf of approximately HK$6,630,262,000.

38. CONTINGENT LIABILITIES

In connection with the gaming related services, the Group undertook the following:

(i) Pursuant to an amendment in the Service Agreement on 16 December 2011, in the event of any non-payment by the gaming promoters or any failure to fulfill their obligations related to gaming promotion agreements as entered with SJM and gaming promoters, the Group undertakes to reimburse SJM for any loss caused by such misconduct of the gaming promoters as well as any possible legal costs associated with litigation. There are no such claims from SJM during the Relevant Periods.

(ii) Pursuant to a revolving credit facility agreement dated 16 December 2011, a gaming promoter, The Company LORE Limited ("TCL") has borrowed HK$300 million from SJM to purchase rolling chips to be used in the VIP room at the Legend Club and must repay all borrowed amounts by 16 December 2012, unless otherwise agreed. The Group has provided a guarantee to SJM under the revolving credit facility agreement. If TCL defaults on any payments or breaches any of its obligations under the agreement, the Group is liable to SJM and SJM is entitled to withhold monthly service income or deduct outstanding amounts from the monthly service income payable to the Group under Service Agreement. On 16 December 2012, another agreement was entered by SJM and TCL to extend the revolving credit facility with the same guarantee by the Group to SJM for one more year. As at 31 December 2011 and 2012, the borrowings of HK$300 million were fully utilized by TCL and remained outstanding.

Based on management's expectations, the fair value of financial guarantee contracts at initial recognition is considered as insignificant and at the end of respective reporting periods it is more likely than not that no amount will be payable by the Group to indemnify SJM under these arrangements. Consequently no liability for the guarantees has been recognized in the Financial Information of the Group at the end of each reporting period.

(iii) Prior to acquisition by the Group, MFW initiated repossession proceedings against a former tenant at Macau Fisherman's Wharf with rental arrears in dispute of MOP89,008,000 (equivalent to approximately HK$86,416,000) in 2009. The former tenant initiated a counterclaim from MFW an amount of MOP90,728,000 (equivalent to approximately HK$88,085,000) in 2009 for alleging breach of undertakings pursuant to a memorandum of understanding on 19 October 2006 and an escrow undertaking letter on 5 September 2008, as well as seeking compensation for amounts spent on improvements to the premises. This legal proceeding is pending before the Macau Court of First Instance. The Directors believe the aforementioned case would not result in any material adverse effects on the financial position of the Group as at 31 December 2012. Accordingly, no provision has been made in the Financial Information.

(iv) Prior to acquisition by the Group, MFW received a claim for outstanding payments on construction work at Macau Fisherman's Wharf from a contractor in 2008. The contractor claimed from MFW an amount of MOP23,709,000 (equivalent to approximately HK$23,018,000) and MFW counterclaimed an amount of MOP14,451,000 (equivalent to approximately HK$14,030,000) for defective construction work carried out by the contractor. In April 2010, the Macau Court of First Instance dismissed all claims from the contractor and awarded MOP462,000 (equivalent to approximately HK$449,000) to MFW. The contractor did not agree the court's judgement and appealed to the Macau Court of Second Instance. This legal proceeding is pending before the Macau Court of Second Instance. The Directors believe the aforementioned case would not result in any material adverse effects on the financial position of the Group as at 31 December 2012. Accordingly, no provision has been made in the Financial Information.

Save and except for the matters specified above, the Group does not have any litigations or claims of material importance and, so far as the Directors are aware, no litigation or claims of material importance are pending or threatened by or against any companies of the Group.

39. MAJOR NON-CASH TRANSACTIONS

(i) During the year ended 31 December 2012, the Group novated its amounts due from MFW Group of HK$656,002,000 to certain directors of the Company before the acquisition of MFW Group. Therefore, an amount of HK$656,002,000 was reclassified from amounts due from related companies (non-trading) to amounts due from directors.

(ii) On 18 May 2012, the Company issued 1,834,873,063 ordinary shares of the Company to former shareholders of MFW as part of the consideration for acquisition of MFW and its subsidiaries. Details of the acquisition are set out in note 42.

(iii) During the year ended 31 December 2011, the shareholders of the Company which entitled the dividends as set out in note 30 have agreed to (i) set off dividend payables HK$1,000,000,000 against amounts due from directors at the same amount; and (ii) unconditionally waive any and all rights and entitlements to the remaining dividends of HK$2,033,409,000. Details are set out in note 30.

(iv) During the year ended 31 December 2012, the Group's trade receivables from a debtor of HK$183,552,000 was assigned to MFW to settle MFW's amount due to that debtor. Therefore, an amount of HK$183,552,000 was reclassified from trade receivables to amounts due from related companies (non-trading).

(v) During the year ended 31 December 2012, coupon payable to a shareholder of HK$15,200,000 included in other financial liabilities was recognized as deemed distribution in special reserve to a non-controlling shareholder in equity. Details are set out in note 30.

40. SHARE-BASED PAYMENTS

Pursuant to two four-year employment contracts signed on 20 December 2006 and 21 December 2010 between the Company and David Chow, the Company issued:

(i) 25,296,468 shares options to David Chow during the year ended 31 December 2011. Details are set out below in note (a).

(ii) 12,671,905 ordinary shares of the Company to David Chow during the year ended 31 December 2011. Details are set out below in note (b).

Notes:

(a) On 23 November 2011, the Company granted a total of 25,296,468 share options at an exercise price of HK$2 per share to David Chow. The fair value of the share options at the date of grant was HK$18,666,000. Share options can be exercised from the date of grant to 22 November 2016. No share options have been exercised up to 31 December 2012.

Pursuant to the 2012 Agreement, the share options granted to David Chow in respect of 25,296,468 share options is adjusted to 24,412,724 share options.

In determining the fair values of share options granted, the Binomial Model has been used. The inputs into the model were as follows:

	Notes	23 November 2011
Fair value of each ordinary share of the Company at grant date		HK$1.97
Exercise price		HK$2.00
Expected volatility	i	62.44%
Risk free rate	ii	0.2984%

Notes:

(i) Expected volatility is estimated with reference to the average 650-day daily return of the comparable companies engaged in similar businesses of the Group.

(ii) The risk free rate is determined by reference to the Hong Kong Exchange Fund Note.

The Binomial Model has been used to estimate the fair values of the share options. The variables and assumptions used in computing the fair values of the share option are based on the directors' best estimate. The value of a share option varies with different variables of certain subjective assumptions.

The fair value of the share options as at 23 November 2011 was determined based on a valuation carried out by Asset Appraisal Limited, chartered financial analyst not connected to the Group. The address of Asset Appraisal Limited is Room 802, 8/F, On Hong Commercial Building, 145 Hennessy Road, Wanchai, Hong Kong.

During the year ended 31 December 2011, share-based payments of HK$18,666,000 has been recognized in the Financial Information with a corresponding increase in the share options reserve of the Group and the Company.

(b) 12,671,905 ordinary shares were issued by the Company on 22 November 2011, which are restricted for resale or pledge during the vesting period. 4,223,969 shares were vested on 22 November 2011, 4,223,969 shares were vested on 31 December 2011 and 4,223,967 shares were vested on 31 December 2012.

Market approach has been used to estimate the fair value of the shares granted. To apply market approach, profit/earning ratio was employed based on the information of comparable companies which operate business similar to the Group. The fair value of each share of the Company was HK$1.97 on 22 November 2011. The variables and assumptions used in computing the fair value of the share are based on the directors' best estimate. The fair value of the shares granted on 22 November 2011 was determined based on a valuation carried out by Asset Appraisal Limited (details of Asset Appraisal Limited are disclosed in note (a) above).

Share-based payments of HK$16,606,000 and HK$8,303,000 were recognized during the two years ended 31 December 2011 and 2012 respectively according to the vesting period.

41. RELATED PARTY TRANSACTIONS

Apart from transactions and amounts due from (to) directors, shareholders and related companies as set out in notes 8, 24, 25, 26, 29, 30, 39, 40 and 42, the Group had the following significant transactions with related companies. The transaction in note (d) will continue after the listing of the shares of the Company.

(a)

	Year ended 31 December		
Nature of transaction	**2010**	**2011**	**2012**
	HK$'000	**HK$'000**	**HK$'000**
Related companies significantly influenced by certain shareholders and directors			
Licensing income	534	2,513	1,296
Food supplier income	529	244	108
Income from building management service	3,417	697	293
Transportation income	1,917	2,257	1,024
Food supplies expenses	2,044	2,043	1,411
Other expenses	1,530	1,005	875

	Year ended 31 December		
Nature of transaction	**2010**	**2011**	**2012**
	HK$'000	**HK$'000**	**HK$'000**
Related companies controlled by certain shareholders and directors			
Income from building management service	842	830	813
Licensing fee expenses	1,783	1,897	2,879

(b) During the year ended 31 December 2011, the Group acquired an aircraft from Macau Landmark Management Limited, a related company as disclosed in note 26, at a consideration of USD12,500,000 (equivalent to HK$97,500,000). As at 31 December 2011 and 2012, the payable for acquisition of the aircraft amounting HK$97,500,000 and HK$97,500,000 respectively was included in amounts due to related companies (non-trading) (note 26). During the year ended 31 December 2011, the Group also disposed of a property (included in construction in progress) to a related company, which beneficially is wholly owned by David Chow and his spouse, at its carrying amount of HK$14,850,000.

(c) Compensation to key management personnel of the Group which represents Directors is set out in note 10.

(d) Pursuant to the Service Agreement, Hong Hock has been authorized to provide gaming related facilities and gaming services defined therein (the "Gaming Services") to SJM at Pharaoh's Palace Casino, Babylon Casino and any other casino or gaming premises, slot machines and traditional and electronic gaming tables, operating from time to time at the Landmark Macau and/or the Macau Fisherman's Wharf. Babylon Casino operates at the Macau Fisherman's Wharf, a property of MFW. Hong Hock entered into the Service Agreement with SJM on behalf of the owners of The Landmark Macau and Macau Fisherman's Wharf. Pursuant to cooperation memorandum entered into between Hong Hock and MFW effective on 25 September 2006, all the net gaming income derived by Hong Hock from such Gaming Services at Babylon Casino shall be transferred from Hong Hock to MFW; and MFW shall assume all the expenses incurred in connection with Babylon Casino and reimburse such expenses incurred by and indemnify Hong Hock for any losses suffered by Hong Hock in connection with its provision of such Gaming Services at Babylon Casino.

(e) As at 31 December 2010 and 2011, the future minimum lease payments of the Group as lessor contracted with a related party within one year were HK$1,220,000 and HK$994,000, in the second to fifth year inclusive were HK$102,000 and HK$335,000 respectively. Such commitments were included in note 36.

(f) On 18 May 2012, the Company issued a total of 884,923,295 ordinary shares of the Company to David Chow, Lam Fong Ngo, Li Chi Keung and The Legend Club Limited (a related company of the Group as described in note 26) as part of the consideration for acquisition of their equity interest in MFW. Details of the acquisition are set out in note 42.

(g) During the year ended 31 December 2011, the Company paid a service fee of HK$2,500,000 to PacBridge Capital Partners (HK) Limited, financial advisor of the Group in connection with the listing of shares of the Company, in which HK$1,750,000 was recognized to profit or loss during the year ended 31 December 2011 while HK$750,000 was recorded as prepayments at 31 December 2011 and will be charged to share premium account upon the listing of the shares of the Company. PacBridge Capital Partners (HK) Limited is a related company of the Group which is controlled by Sheldon Trainor-DeGirolamo, a director of the Company as appointed on 18 May 2012. For details of the arrangement with PacBridge Capital Partners (HK) Limited, please refer to section headed "History, Reorganization and Corporate Structure — Pacbridge Share Issue" in the Prospectus.

42. ACQUISITION OF SUBSIDIARIES

On 18 May 2012, the Group entered into a sale and purchase agreement with the then shareholders of MFW, in which approximately 48.2% equity interest in MFW was held by David Chow, Lam Fong Ngo, Li Chi Keung and The Legend Club Limited (note 41), for the acquisition of the entire equity interest in MFW. The acquisition was completed on 18 May 2012, on that date the control in MFW was passed to the Group. The MFW Group is principally engaged in operating Macau Fisherman's Wharf.

Consideration transferred

	HK$'000
Investment deposit (Note 22)	200,000
Fair value of the Company's ordinary shares (Note)	3,519,693
Total	3,719,693

Note: On 18 May 2012, the Company issued and allotted 1,834,873,063 ordinary shares of the Company to the shareholders of MFW as part of the consideration. On the date of acquisition, the fair value of the total consideration payable by the Company is HK$3,719,693,000.

The fair value of the Company's ordinary shares has been determined by the Directors using discounted cash flow method. The Group prepared cash flows forecasts derived from the most recent financial budgets approved by management for the next ten years. The cash flows beyond 10-year period are extrapolated using a steady 4% growth rate for the business relating to provision of gaming related facilities and gaming related general management services and 3% growth rate for non-gaming business. The rate used to discount the forecast cash flows for the Group is 12% per annum.

Assets and liabilities at the date of acquisition recognized by the Group:

	Fair value
	HK$'000
Investment properties	138,000
Property and equipment	1,687,615
Prepaid lease payments	1,336,000
Deposits paid for acquisition of property and equipment	6,452
Inventories	23,670
Trade and other receivables	34,233
Amounts due from related companies	1
Pledged bank deposits	20,579
Bank balances and cash	60,521
Trade and other payables	(57,808)
Amounts due to related companies	(9,357)
Deferred tax liability	(202,199)
	3,037,707
Goodwill	681,986
	3,719,693

The aggregate fair value of the investment properties, property and equipment and prepaid lease payments has been arrived at on the basis of a valuation carried out as at 18 May 2012 by Savills Valuation and Professional Services Limited, chartered surveyors not connected to the Group. The valuation was arrived at using the direct comparison method by making reference to comparable sales transactions available in relevant market for prepaid lease payments and depreciated replacement cost method for investment properties and property and equipment. The address of Savills Valuation and Professional Services Limited is 23/F, Two Exchange Square, Central, Hong Kong.

In addition, the Directors considered that the fair value of contingent liabilities relating to dispute and claim as disclosed in note 38 (iii) and (iv) are not significant at the date of acquisition.

The gross contractual amounts of the trade and other receivables and amounts due from related companies acquired were HK$87,628,000 and HK$1,000 respectively at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected was HK$53,395,000.

Goodwill arising on acquisition

	HK$'000
Consideration transferred	3,719,693
Less: fair value of identifiable net assets acquired	(3,037,707)
Goodwill arising on acquisition	681,986

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash inflow arising on acquisition

	HK$'000
Bank balances and cash acquired	60,521

Impact of acquisition on the results of the Group

Included in consolidated revenue and profit of the Group for the year ended 31 December 2012 are revenue of HK$207,593,000 and loss of HK$87,235,000 respectively attributable to the additional business generated by MFW Group.

If the above acquisition during the year ended 31 December 2012 had been completed on 1 January 2012, Group's revenue and profit for the year ended 31 December 2012 would have been HK$1,630,977,000 and HK$528,756,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the operations of the Group that actually would have been achieved had above acquisition been completed on 1 January 2012, nor is it intended to be projection of future results.

In determining the pro forma profit of the Group had MFW been acquired at the beginning on 1 January 2012, the Directors have calculated depreciation of investment properties and property and equipment and release of prepaid lease payments acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognized in the pre-acquisition financial statements.

The goodwill arising on the acquisition of MFW mainly represented the future benefit expected to be generated from the business relating to provision of gaming related facilities and gaming related general management services presently existed and to be expanded pursuant to a proposed redevelopment plan on the land owned by MFW which cannot be recognized separately as identifiable asset. At the date of acquisition, MFW received an offer on the initial stage of the redevelopment plan (excluding the expansion of gaming operation) as proposed by the relevant government bodies of Macau. The offer was accepted by MFW and became effective on 24 May 2012.

43. PRE-ACQUISITION FINANCIAL INFORMATION OF MFW GROUP

The financial information on the MFW Group for the years ended 31 December 2010 and 2011, and period from 1 January 2012 to 18 May 2012 (the "Pre-acquisition Periods") is disclosed as below. MFW was controlled by Ho Hung Sun Stanley prior to 18 December 2010, and then by Chan Un Chan from 18 December 2010 up to 18 May 2012. The general and background information of the MFW Group is set out note 1. The accounting policies of the MFW Group are in conformity with the accounting policies adopted by the Group as described in note 3. The financial information on the MFW Group during the Pre-acquisition Periods is presented in HK$, which is also the functional currency of the MFW and its subsidiaries.

(i) Consolidated statements of comprehensive income

	Notes	Year ended 31 December 2010	Year ended 31 December 2011	Period from 1 January 2012 to 18 May 2012
		HK$'000	HK$'000	HK$'000
Revenue	b	293,588	320,536	135,193
Costs of sales and services		(351,717)	(313,126)	(115,576)
		(58,129)	7,410	19,617
Other income, gains and losses	d	6,236	(8,285)	597
Marketing and promotional expenses		(17,614)	(16,026)	(5,983)
Operating and administrative expenses		(105,773)	(89,868)	(32,299)
Finance costs	e	(906)	(2,836)	(17)
Loss before taxation	g	(176,186)	(109,605)	(18,085)
Taxation	h	—	—	—
Loss and total comprehensive expense for the year/period attributable to owners of MFW		(176,186)	(109,605)	(18,085)

Note: No loss per share information is presented as its inclusion is not meaningful having regard to the purpose of financial information on MFW Group for the Pre-acquisition Periods.

(ii) Consolidated statements of financial position

	Notes	As at 31 December 2010	As at 31 December 2011	As at 18 May 2012
		HK$'000	HK$'000	HK$'000
Non-current assets				
Investment properties	i	103,126	100,482	99,472
Property and equipment	j	1,431,947	1,358,483	1,330,025
Prepaid lease payments	k	47,605	46,355	45,877
Deposits for acquisition of property and equipment		6,452	6,452	6,452
		1,589,130	1,511,772	1,481,826
Current assets				
Inventories	l	12,737	16,841	23,670
Prepaid lease payments	k	1,250	1,250	1,250
Trade and other receivables	m	29,043	25,735	34,233
Amounts due from related companies	n	44	71	1
Pledged bank deposits	o	20,579	20,579	20,579
Bank balances and cash	o	50,225	49,225	60,521
		113,878	113,701	140,254
Current liabilities				
Trade and other payables	p	364,126	395,118	57,808
Amounts due to related companies	n	312,795	313,873	9,357
Amounts due to shareholders/directors	q	2,887,761	2,887,761	—
		3,564,682	3,596,752	67,165
Net current (liabilities) assets		(3,450,804)	(3,483,051)	73,089
Total assets less current liabilities		(1,861,674)	(1,971,279)	1,554,915
Capital and reserves				
Share capital	r	9,709	9,709	9,709
Reserves		(1,871,383)	(1,980,988)	1,545,206
Equity attributable to owners of MFW		(1,861,674)	(1,971,279)	1,554,915

(iii) Consolidated statements of changes in equity

	Share capital	Shareholders' contribution reserve	Accumulated losses	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2010	9,709	—	(1,695,197)	(1,685,488)
Loss and total comprehensive expense for the year	—	—	(176,186)	(176,186)
At 31 December 2010	9,709	—	(1,871,383)	(1,861,674)
Loss and total comprehensive expense for the year	—	—	(109,605)	(109,605)
At 31 December 2011	9,709	—	(1,980,988)	(1,971,279)
Loss and total comprehensive expense for the period	—	—	(18,085)	(18,085)
Capitalisation of amounts due to shareholders (note)	—	3,544,279	—	3,544,279
At 18 May 2012	9,709	3,544,279	(1,999,073)	1,554,915

Note: During the period from 1 January 2012 to 18 May 2012, the shareholders of MFW agreed to capitalize the amounts due to shareholders/directors of HK$3,544,279,000 in aggregate and the amounts were recorded as shareholders' contribution.

(iv) Consolidated statements of cash flows

	Year ended 31 December		Period from 1 January 2012 to 18 May
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Operating activities			
Loss before taxation	(176,186)	(109,605)	(18,085)
Adjustments for:			
Interest income	(30)	(147)	(70)
Interest expense	906	2,836	17
Allowance for bad and doubtful debts	981	9,937	—
Write-down on inventories	4,264	828	674
Depreciation of investment properties	2,644	2,644	1,010
Depreciation of property and equipment	92,106	85,503	29,632
Loss on disposal of property and equipment	66	488	—
Release of prepaid lease payments	1,250	1,250	478
Operating cash flows before movements in working capital	(73,999)	(6,266)	13,656
Decrease (increase) in inventories	155	(4,932)	(7,503)
Decrease (increase) in trade and other receivables	17,128	(6,629)	(8,498)
Decrease (increase) in amounts due from related companies	1,871	(27)	70
Increase (decrease) in trade and other payables	45,525	30,992	(153,758)
(Decrease) increase in amounts due to related companies	(2,060)	998	(236)
Cash (used in) generated from operating activities	(11,380)	14,136	(156,269)
Interest received	30	147	70
Net cash (used in) from operating activities	(11,350)	14,283	(156,199)
Cash used in investing activity			
Purchase of property and equipment	(5,878)	(12,527)	(1,174)
Financing activities			
Interest paid	(906)	(2,836)	(17)
Advance from related companies	49,762	80	168,170
Advance from shareholders/directors	66,000	—	516
New bank borrowings raised	—	100,000	—
Repayments of bank borrowings	(89,904)	(100,000)	—
Net cash from (used in) financing activities	24,952	(2,756)	168,669
Net increase (decrease) in cash and cash equivalent	7,724	(1,000)	11,296
Cash and cash equivalent at the beginning of the year/period	42,501	50,225	49,225
Cash and cash equivalent at the end of the year/period, represented by			
Bank balances and cash	50,225	49,225	60,521

(v) Explanatory notes

(a) *Financial instruments*

Capital risk management

The MFW Group manages its capital to ensure that entities in the MFW Group will be able to continue as a going concern while maximizing the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the MFW Group consists of debt, which includes the amounts due to related companies and amounts due to shareholders/directors disclosed in notes 43(v)(n) and 43(v)(q) respectively, and equity attributable to owners of MFW, comprising issued share capital disclosed in note 43(v)(r), and accumulated losses as disclosed in consolidated statements of changes in equity. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the MFW Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debts. The MFW Group's overall strategy remains unchanged throughout the Pre-acquisition Periods.

Categories of financial instruments

	As at 31 December		As at 18 May
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Financial assets			
Loans and receivables (including cash and cash equivalents)	99,167	92,860	112,641
Financial liabilities			
Amortized cost	3,562,103	3,594,446	63,888

Financial risk management objectives and policies

The MFW Group's major financial instruments include trade and other receivables, amounts due from/to related companies, trade and other payables, amounts due to shareholders/directors, pledged bank deposits and bank balances and cash. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

The MFW Group is mainly exposed to cash flow interest rate risk in relation to variable-rate bank balances (see note 43(v)(o) for the details), and fair value interest rate risk in relation to fixed-rate pledged bank deposits and non-interest bearing amounts due from/to related companies and shareholders/directors.

The MFW Group currently does not have interest rate hedging policy. However, management closely monitors its exposure to future cash flow risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arise.

The MFW Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk section of this note.

Currency risk

Certain trade and other receivables, trade and other payables, bank balances and cash and amounts due to related companies are denominated in foreign currencies other than the functional currency of the relevant group entities, which expose the MFW Group to foreign currency risk. The MFW Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

The carrying amounts of the MFW Group's foreign currency denominated monetary assets and liabilities at the reporting periods are as follows:

	Assets		
	As at 31 December		As at 18 May
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
MOP	49,689	50,165	38,702
EURO	4,991	4,626	4,745

	Liabilities		
	As at 31 December		As at 18 May
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
MOP	101,159	115,725	63,015
EURO	—	—	472
UNITED STATES DOLLARS ("US$")	—	—	455

Sensitivity analysis

The directors of MFW do not expect any significant foreign currency exposure as MOP and US$ is pegged to HK$.

The following table details the MFW Group's sensitivity to a 5% increase and decrease in HK$ against Euro. 5% is the sensitivity rate used by the management in the assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding Euro denominated monetary items and adjusts its translation at the end of reporting period for a 5% change in Euro rates. A positive number below indicates a decrease in loss for the year/period where Euro strengthens 5% against HK$. For a 5% weakening of Euro against HK$ there would be an equal and opposite impact on the loss for the year/period below:

	Year ended 31 December		Period from 1 January 2012 to 18 May
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Loss for the year/period			
EURO	250	231	98

In the opinion of the directors of MFW, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year/period end exposure does not reflect the exposure during the Pre-acquisition Periods.

Credit risk

As at 31 December 2010 and 2011 and 18 May 2012, the MFW Group's maximum exposure to credit risk which will cause a financial loss to the MFW Group due to failure to discharge an obligation by the counterparties as at the end of reporting period are arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statements of financial position.

In order to minimize the credit risk, the MFW Group reviews the recoverable amount of each individual debtor at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of MFW consider that the MFW Group's credit risk is significantly reduced.

In relation to the gaming business, the MFW Group has concentration of credit risk on trade receivables as 21% of total trade receivables is due from the MFW Group's largest debtor as at 18 May 2012. Having considered the continuous subsequent settlements and no historical default of payments by this debtor, the directors of MFW consider that the credit risk is significantly reduced.

Before accepting any new customers with the grant of credit period related to the non-gaming business, the MFW Group will assess the potential customers' credit quality by reference to the experience of the management and defines credit limit by customers. Such credit limit is reviewed by the management periodically. For customers related to licensing income, the Group has no significant concentration of credit risk, with exposure spread over a number of counterparty and customers.

The credit risk for bank deposits and bank balances is considered as minimal as such amounts are placed in banks with good reputation in MSAR.

Other than concentration of credit risk on bank deposits and bank balances and trade receivables, the MFW Group does not have any other significant concentration of credit risk.

Liquidity risk

In the management of the liquidity risk, the MFW Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the operations and mitigate the effects of fluctuations in cash flows. The MFW Group relies on amounts due to shareholders/directors and related companies as a significant source of liquidity.

Liquidity table

The following table details the MFW Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the MFW Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

	Repayable on demand 0 to 180 days	Between 181 days to 1 year	Between 1 to 2 years	Between 2 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amounts at the end of the reporting date
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2010							
Non-interest bearing financial liabilities	3,562,103	—	—	—	—	3,562,103	3,562,103
At 31 December 2011							
Non-interest bearing financial liabilities	3,594,446	—	—	—	—	3,594,446	3,594,446
At 18 May 2012							
Non-interest bearing financial liabilities	63,888	—	—	—	—	63,888	63,888

Fair values

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of MFW consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the financial information of the MFW Group approximate their fair values.

(b) ***Revenue***

Revenue represents the amount received and receivable for goods sold and services rendered by the MFW Group to outside customers, less allowance. An analysis of the MFW Group's revenue for the Pre-acquisition Periods is as follows:

	Year ended 31 December		Period from 1 January 2012 to 18 May
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Revenue from provision of gaming related facilities and gaming related general management services in respect of:			
— Mass market tables	107,577	130,247	72,672
— Slot machines	1,910	1,508	383
	109,487	131,755	73,055
Revenue from non-gaming operations:			
— Rental income from hotel rooms	16,832	22,410	7,603
— Licensing income from investment properties	23,570	22,796	8,731
— Income from building management service	13,198	13,665	5,006
— Food and beverage	74,868	79,553	23,166
— Sales of merchandise	48,638	46,133	17,055
— Others	6,995	4,224	577
	184,101	188,781	62,138
	293,588	320,536	135,193

(c) *Segment information*

The directors of MFW (the "Directors of MFW") have been identified as the chief operating decision maker of MFW Group. The Directors of MFW review the MFW Group's internal reports in order to assess performance and allocate resources.

For provision of gaming related facilities and gaming related general management services, the Directors of MFW regularly analyze gaming related revenue in terms of service income from mass market tables and slot machines. No operating result or discrete financial information is presented to the Directors of MFW in related to the above analyzes. The Directors of MFW review separately the entire revenues and operating results attributable to gaming related services and non-gaming operations. As such, the Directors of MFW have identified the operating and reportable segments under HKFRS 8 as gaming and non-gaming operations.

The segment information reported externally is consistent with the internal information that is regularly reviewed by the Directors of MFW for the purposes of resource allocation and assessment of performance. This is also the basis of organization in the MFW Group, whereby the management has chosen to organize the MFW Group around differences in products and services. The principal activities of the operating and reportable segments are as follows:

Gaming — gaming related services for mass market tables and slot machines

Non-gaming — hotel operations in Rocks Hotel in Macau Fisherman's Wharf and other operations including licencing income from the shops, provision of building management service, food and beverage, sales of merchandise and others.

Segment revenue and results

The following is an analysis of the MFW Group's revenue and results by reportable and operating segments:

For the year ended 31 December 2010

	Gaming	Non-gaming	Elimination	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
External revenue	109,487	184,101	—	293,588
Inter-segment revenue	—	1,789	(1,789)	—
Revenue	109,487	185,890	(1,789)	293,588
Segment losses	(50,427)	(79,299)	—	(129,726)
Unallocated corporate expenses				(45,554)
Finance costs				(906)
Loss before taxation				(176,186)

For the year ended 31 December 2011

	Gaming	Non-gaming	Elimination	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
External revenue	131,755	188,781	—	320,536
Inter-segment revenue	—	1,808	(1,808)	—
Revenue	131,755	190,589	(1,808)	320,536
Segment profits (losses)	615	(65,021)	—	(64,406)
Unallocated corporate expenses				(42,363)
Finance costs				(2,836)
Loss before taxation				(109,605)

For the period from 1 January 2012 to 18 May 2012

	Gaming	Non-gaming	Elimination	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
External revenue	73,055	62,138	—	135,193
Inter-segment revenue	—	668	(668)	—
Revenue	73,055	62,806	(668)	135,193
Segment profits (losses)	25,762	(30,686)	—	(4,924)
Unallocated corporate expenses				(13,144)
Finance costs				(17)
Loss before taxation				(18,085)

Inter-segment revenue is charged at amounts agreed by both parties.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profits (losses) represent the result of each segment without allocation of corporate expenses and finance costs. Corporate expenses include directors' remuneration and certain administrative expenses for corporate use. This is the measure reported to the Directors of MFW for the purposes of resource allocation and performance assessment.

No analysis of the MFW Group's assets and liabilities by operating and reportable segments is disclosed as it is not regularly provided to the Directors of MFW for review.

Other segment information

For the year ended 31 December 2010

	Gaming	Non-gaming	Unallocated	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
Amounts included in the measure of segment loss:				
Depreciation of property and equipment	19,228	63,051	9,827	92,106
Depreciation of investment properties	—	2,255	389	2,644
Release of prepaid lease payments	122	1,063	65	1,250
Loss on disposal of property and equipment	—	66	—	66
Write-down on inventories	—	4,264	—	4,264
Allowance for bad and doubtful debts	—	981	—	981

For the year ended 31 December 2011

	Gaming	Non-gaming	Unallocated	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
Amounts included in the measure of segment profit (loss):				
Depreciation of property and equipment	18,922	59,203	7,378	85,503
Depreciation of investment properties	—	2,255	389	2,644
Release of prepaid lease payments	122	1,063	65	1,250
Loss on disposal of property and equipment	—	488	—	488
Write-down on inventories	—	828	—	828
Allowance for bad and doubtful debts	—	9,937	—	9,937

For the period from 1 January 2012 to 18 May 2012

	Gaming	Non-gaming	Unallocated	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
Amounts included in the measure of segment profit (loss):				
Depreciation of property and equipment	6,970	20,807	1,855	29,632
Release of prepaid lease payments	47	406	25	478
Depreciation of investment properties	—	861	149	1,010
Write-down on inventories	—	674	—	674

Other than the segment information disclosed in above, there was no other information reviewed by the Directors of MFW for the Pre-acquisition Periods.

Geographical information

All revenue of the MFW Group is derived from customers in Macau.

All non-current assets of the MFW Group are located in Macau.

Information about major customer

During the Pre-acquisition Periods, revenue from gaming related services operation was derived from a single customer which contributed over 10% of the MFW Group's revenue.

(d) *Other income, gains and losses*

	Year ended 31 December 2010	Year ended 31 December 2011	Period from 1 January 2012 to 18 May 2012
	HK$'000	HK$'000	HK$'000
Bank interest income	30	147	70
Compensation from insurance claim	5,502	—	—
Net foreign exchange gain	364	376	91
Allowance for bad and doubtful debts	(981)	(9,937)	—
Others	1,321	1,129	436
	6,236	(8,285)	597

(e) *Finance costs*

	Year ended 31 December 2010	Year ended 31 December 2011	Period from 1 January 2012 to 18 May 2012
	HK$'000	HK$'000	HK$'000
Interest on:			
Bank borrowings wholly repayable within five years	906	2,836	17

(f) *Directors' and employees' remuneration*

The remuneration paid or payable to Directors of the MFW Group was as follows:

	Ho Hung Sun Stanley	Lam Fong Ngo	David Chow	So Shu Fai	Li Chi Keung	Leong On Kei Angela	Kwong Ki Chi	Melinda Chan	Chan Un Chan	Ho Chiu Wan Florinda	Total
	HK$'000	HK$'000	HK$'000	HK$'000 (Note 1)	HK$'000	HK$'000 (Note 1)	HK$'000 (Note 1)	HK$'000 (Note 2)	HK$'000 (Note 2)	HK$'000 (Note 2)	HK$'000
For the year ended 31 December 2010											
Fee	—	—	—	—	—	—	—	—	—	—	—
Salaries and allowances	—	—	408	359	359	—	—	—	—	—	1,126
Performance related incentive payments	—	—	—	—	—	—	—	—	—	—	—
Contributions to retirement benefits scheme	—	—	—	—	—	—	—	—	—	—	—
Total remuneration	—	—	408	359	359	—	—	—	—	—	1,126

	Ho Hung Sun Stanley	Lam Fong Ngo	David Chow	Li Chi Keung	Melinda Chan	Chan Un Chan	Ho Chiu Wan Florinda	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (Note 2)	HK$'000 (Note 2)	HK$'000 (Note 2)	HK$'000
For the year ended 31 December 2011								
Fee	—	—	—	—	—	—	—	—
Salaries and allowances	—	—	233	233	—	—	—	466
Performance related incentive payments	—	—	—	—	—	—	—	—
Contributions to retirement benefits scheme	—	—	—	—	—	—	—	—
Total remuneration	—	—	233	233	—	—	—	466

	Ho Hung Sun Stanley	Lam Fong Ngo	David Chow	Li Chi Keung	Melinda Chan	Chan Un Chan	Ho Chiu Wan Florinda	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (Note 2)	HK$'000 (Note 2)	HK$'000 (Note 2)	HK$'000
Period from 1 January 2012 to 18 May 2012								
Fee	—	—	—	—	—	—	—	—
Salaries and allowances	—	—	89	89	—	—	—	178
Performance related incentive payments	—	—	—	—	—	—	—	—
Contributions to retirement benefits scheme	—	—	—	—	—	—	—	—
Total remuneration	—	—	89	89	—	—	—	178

Notes:

1. So Shu Fai, Leong On Kei Angela and Kwong Ki Chi resigned on 18 December 2010.

2. Melinda Chan, Chan Un Chan and Ho Chiu Wan Florinda were appointed on 18 December 2010.

The five individuals with highest emoluments in the MFW Group for the Pre-acquisitions Period are as follows:

	Year ended 31 December		Period from 1 January 2012 to 18 May
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Salaries, allowances and benefits	3,963	3,940	1,611
Performance related incentive payments	411	—	—
Contributions to retirement benefits scheme	4	3	—
	4,378	3,943	1,611

Their emoluments were within the following bands:

	Year ended 31 December		Period from 1 January 2012 to 18 May
	2010	2011	2012
	No. of employees	No. of employees	No. of employees
Nil to HK$1,000,000	3	4	5
HK$1,000,001 to HK$1,500,000	2	1	—

No emoluments were paid by the MFW Group to the five highest paid individuals as an inducement to join or upon joining the MFW Group or as compensation for loss of office in the Pre-acquisition Periods.

(g) *Loss before taxation*

	Year ended 31 December		Period from 1 January 2012 to 18 May
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Loss before taxation has been arrived at after charging (crediting):			
Auditor's remuneration	1,020	1,740	389
Staff costs			
Directors' remuneration	1,126	466	178
Other staff costs			
— salaries and other benefits	124,099	98,452	35,389
— contributions to retirement benefits scheme	440	750	274
	125,665	99,668	35,841
Depreciation of investment properties	2,644	2,644	1,010
Depreciation of property and equipment	92,106	85,503	29,632
Loss on disposal of property and equipment	66	488	—
Release of prepaid lease payments	1,250	1,250	478
Operating lease rentals in respect of leasehold land and buildings	9,615	7,547	2,925
Write-down on inventories (included in cost of sales and services)	4,264	828	674
Cost of inventories recognized as an expense	49,929	50,677	16,154
Gross licensing income from investment properties	(23,570)	(22,796)	(8,731)
Less: Direct operating expenses that generated licensing income	2,644	2,644	1,010
Net licensing income	(20,926)	(20,152)	(7,721)

(h) *Taxation*

Macau Complementary Tax is calculated at the maximum progressive rate of 12% on the estimated assessable profit for the year/period. No provision for Macau Complementary tax and Hong Kong Profits Tax has been made in the financial information of the MFW Group due to tax losses incurred during the Pre-acquisition Periods.

Pursuant to the Dispatch of the Macau Financial Services Bureau dated 17 November 2006 and a confirmation letter issued by the Macau Financial Services Bureau dated 14 January 2013, gaming related revenue generated from Service Agreement is not subject to Macau Complementary Tax since it is derived from SJM gaming revenue, which gaming revenue is exempted pursuant to the terms of no. 2 of article 28 of the Law 16/2001 and the exemption granted by Dispatch no. 30/2004 of 23 February 2004 and further by Dispatch no. 378/2011 of 23 November 2011.

The taxation for the Pre-acquisition Periods can be reconciled to the loss before taxation per the consolidated statements of comprehensive income of the MFW Group as follows:

	Year ended 31 December		Period from 1 January 2012 to 18 May
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Loss before taxation	(176,186)	(109,605)	(18,085)
Taxation at Macau Complementary Tax rate at 12%	(21,142)	(13,153)	(2,170)
Tax effect of expenses not deductible for tax purpose	22,654	21,133	7,318
Tax effect of income not taxable for tax purpose	(14,029)	(17,004)	(8,786)
Tax effect of estimated tax losses not recognized	12,517	9,024	3,638
Taxation	—	—	—

As at 31 December 2010 and 2011 and 18 May 2012, the MFW Group has unused tax losses of HK$615,663,000, HK$422,539,000 and HK$209,826,000 respectively from non-gaming operations available for offset against future profit that will expire in three years from the year of assessment.

During the years ended 31 December 2010 and 2011 and the period from 1 January 2012 to 18 May 2012, approximately HK$700,481,000, HK$268,324,000 and HK$243,030,000 of tax losses have expired.

Having considered (i) the unpredictability of future profit streams for the non-gaming operations; and (ii) the fact that tax losses can only be utilized in three years from the year of assessment, the Directors of MFW are of the view that it may not be probable that taxable profits will be available against which unutilized tax losses can be utilized. As a result, no deferred tax assets have been recognized.

(i) ***Investment properties***

	HK$'000
At 1 January 2010, 31 December 2010 and 2011 and 18 May 2012	116,280
DEPRECIATION	
At 1 January 2010	10,510
Provided for the year	2,644
At 31 December 2010	13,154
Provided for the year	2,644
At 31 December 2011	15,798
Provided for the period	1,010
At 18 May 2012	16,808
CARRYING AMOUNTS	
At 31 December 2010	103,126
At 31 December 2011	100,482
At 18 May 2012	99,472

The above investment properties are depreciated on a straight-line basis over the shorter of the term of the lease or 50 years.

All the MFW Group's investment properties are held for leasing purpose under operating leases and are situated on land in Macau with medium-term lease.

(j) *Property and equipment*

	Buildings	Furniture, fixtures and equipment	Leasehold improvements	Motor vehicles	Machinery	Construction in progress	Rides	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST								
At 1 January 2010	1,554,463	303,018	102,189	11,145	72,141	47,831	3,589	2,094,376
Additions	2,415	2,214	503	—	—	772	—	5,904
Written off	—	(68)	(968)	—	—	—	—	(1,036)
At 31 December 2010	1,556,878	305,164	101,724	11,145	72,141	48,603	3,589	2,099,244
Additions	2,486	1,831	8,210	—	—	—	—	12,527
Transfer	2,988	—	—	—	—	(2,988)	—	—
Written off	—	(163)	(3,882)	—	—	—	—	(4,045)
At 31 December 2011	1,562,352	306,832	106,052	11,145	72,141	45,615	3,589	2,107,726
Additions	—	1,174	—	—	—	—	—	1,174
Written off	—	(12)	—	—	—	—	—	(12)
At 18 May 2012	1,562,352	307,994	106,052	11,145	72,141	45,615	3,589	2,108,888
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
At 1 January 2010	323,823	178,834	40,886	7,041	21,988	—	3,589	576,161
Charge for the year	30,826	38,009	13,824	2,233	7,214	—	—	92,106
Eliminated on written off	—	(53)	(917)	—	—	—	—	(970)
At 31 December 2010	354,649	216,790	53,793	9,274	29,202	—	3,589	667,297
Charge for the year	30,967	33,056	12,480	1,786	7,214	—	—	85,503
Eliminated on written off	—	(56)	(3,501)	—	—	—	—	(3,557)
At 31 December 2011	385,616	249,790	62,772	11,060	36,416	—	3,589	749,243
Charge for the period	11,820	10,436	4,565	57	2,754	—	—	29,632
Eliminated on written off	—	(12)	—	—	—	—	—	(12)
At 18 May 2012	397,436	260,214	67,337	11,117	39,170	—	3,589	778,863
CARRYING AMOUNTS								
At 31 December 2010	1,202,229	88,374	47,931	1,871	42,939	48,603	—	1,431,947
At 31 December 2011	1,176,736	57,042	43,280	85	35,725	45,615	—	1,358,483
At 18 May 2012	1,164,916	47,780	38,715	28	32,971	45,615	—	1,330,025

According to the Service Agreement, gaming machinery (included in the class "machinery") have to be returned to the Macau Government at no cost upon the expiry of SJM concession contract in year 2020.

The above items of property and equipment, except for construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the term of the lease or 50 years
Furniture, fixtures and equipment	10%–50%
Leasehold improvements	10%–33%
Motor vehicles	10%–25%
Machinery	10%
Rides	13%

The MFW Group's buildings are located in Macau under medium-term lease.

During the Pre-acquisition Periods, the Directors of MFW considered no impairment loss is required in respect of the MFW Group's property and equipment.

(k) ***Prepaid lease payments***

	As at 31 December		As at 18 May
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
The MFW Group's prepaid lease payments comprise:			
Medium-term leasehold land in Macau	48,855	47,605	47,127
Analyzed for reporting purposes as:			
Current asset	1,250	1,250	1,250
Non-current asset	47,605	46,355	45,877
	48,855	47,605	47,127

During the Pre-acquisition Periods, the Directors of MFW considered no impairment loss is required in respect of the MFW Group's prepaid lease payments.

(l) ***Inventories***

	As at 31 December		As at 18 May
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Food and beverage	4,792	4,725	4,881
Retail merchandise	5,998	10,227	16,840
Consumables	1,947	1,889	1,949
	12,737	16,841	23,670

(m) ***Trade and other receivables***

	As at 31 December		As at 18 May
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Trade receivables	71,017	73,599	81,474
Less: Allowance for doubtful debts	(46,412)	(53,395)	(53,395)
	24,605	20,204	28,079
Deposits, prepayments and other receivables	4,438	5,531	6,154
Total trade and other receivables	29,043	25,735	34,233

As at 18 May 2012, included in the MFW Group's trade receivables balance are carrying amount of HK$5,790,000, which are due from a gaming operator, a related company of the MFW Group, in relation to provision of gaming related facilities and gaming related general management services. Ho Hung Sun Stanley, Chan Un Chan and their close family members have significant influence in the gaming operator during the Pre-acquisition Periods.

The MFW Group allows a credit period with an average of 30 days to gaming operator relating to provision of gaming related services, an average of 30 days to its hotel guests and an average of 15 days to its tenants. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

	As at 31 December		As at 18 May
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Within 3 months	11,868	13,399	16,297
Over 3 months but within 6 months	2,004	2,942	3,678
Over 6 months	10,733	3,863	8,104
	24,605	20,204	28,079

As at 31 December 2010 and 2011 and 18 May 2012, included in the MFW Group's trade receivables balance are debtors with aggregate carrying amount of HK$17,406,000, HK$13,454,000 and HK$22,163,000 respectively, which are past due at the end of the reporting period for which the MFW Group has not provided for impairment loss. The trade receivables past due but not impairment were either subsequently settled up to the date of this report or due from debtors which do not have historical default of payments. The MFW Group does not hold any collateral over these balances.

Aged analysis of trade receivables which are past due but not impaired

	As at 31 December		As at 18 May
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Over 2 months but within 3 months	4,669	6,649	10,381
Over 3 months but within 6 months	2,004	2,942	3,678
Over 6 months	10,733	3,863	8,104
	17,406	13,454	22,163

Movement in the allowance for doubtful debts

	As at 31 December		As at 18 May
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Balance at beginning of the year/period	56,843	46,412	53,395
Impairment losses recognized on receivables	981	9,937	—
Amounts written off as uncollectible	(11,412)	(2,954)	—
Balance at end of the year/period	46,412	53,395	53,395

As at 31 December 2010 and 2011 and 18 May 2012, included in the allowance for bad and doubtful debts are individually impaired trade receivables with an aggregate balance of HK$46,412,000, HK$53,395,000 and HK$53,395,000 respectively, which are aged over one year or placed under liquidation or in severe financial difficulty. In determining the recoverability of a trade receivable, the MFW Group considers change in credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period. The Directors of MFW believe that there is no further credit provision required in excess of the allowance for bad and doubtful debts.

(n) ***Amounts due from/to related companies***

In addition to the trade receivables from and trade payables to a related company as disclosed in note 43(v)(m) and 43(v)(p), details of amounts due from/to other related companies are set out below.

The amounts due from/to related companies are unsecured, non-interest bearing and repayable within the credit period offered or on demand.

Details of amounts due from related companies (trading) are stated as follows:

	As at 31 December		As at 18 May
	2010	**2011**	**2012**
	HK$'000	**HK$'000**	**HK$'000**
The Legend Club Limited (Note 1)	12	12	1
Macau Legend (Hong Kong) (Note 2)	—	59	—
Hong Hock (Note 2)	32	—	—
Amounts due from related companies	44	71	1

Notes:

1. The related company is wholly owned by David Chow and his spouse, Lam Fong Ngo and Li Chi Keung and his spouse. David Chow and Lam Fong Ngo are also the substantial shareholders and directors of MFW. Li Chi Keung is a director of MFW.

2. The related companies are wholly owned by David Chow, Lam Fong Ngo and Li Chi Keung and their close family members.

The MFW Group allows a credit period of 3 months to its related parties.

Aged analysis of amounts due from related companies (trading)

	As at 31 December		As at 18 May
	2010	**2011**	**2012**
	HK$'000	**HK$'000**	**HK$'000**
Within 3 months	32	59	1
Over 1 year	12	12	—
	44	71	1

As at 31 December 2010 and 2011 and 18 May 2012, included in the MFW Group's amounts due from related companies (trading) balance are debtors with aggregate carrying amount of HK$12,000, HK$12,000 and HK$ nil respectively, which are past due as at the end of the reporting period for which the Group has not provided for impairment loss. The MFW Group does not hold any collateral over these balances.

Aged analysis of amounts due from related companies (trading) which are past due but not impaired

	As at 31 December		As at 18 May
	2010	**2011**	**2012**
	HK$'000	**HK$'000**	**HK$'000**
Over 1 year	12	12	—

Details of the amounts due to related companies are stated as follows:

	As at 31 December		As at 18 May
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Trading (Note 1)	8,467	9,465	9,229
Non-trading (Note 1)	304,328	304,408	128
Amounts due to related companies	312,795	313,873	9,357

Note:

1. The related companies are wholly owned by David Chow, Lam Fong Ngo and Li Chi Keung and their close family members.

Aged analysis of amounts due to related companies (trading)

	As at 31 December		As at 18 May
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Within 3 months	8,359	7,539	2,506
Over 3 months but within 6 months	108	—	—
Over 1 year	—	1,926	6,723
	8,467	9,465	9,229

The amounts due to related companies (trading) are with credit term of 3 months.

(o) *Pledged bank deposits, bank balances and cash*

Pledged bank deposits represent deposits pledged to banks as security for use of electricity granted by an independent third party to the MFW Group and for the arrangement of letter of credit of the MFW Group.

Bank balances and cash comprise cash held by the MFW Group and short-term bank deposits at market interest rates with an original maturity of three months or less. As at 31 December 2010 and 2011 and 18 May 2012, the average interest rates are 0.01%, 0.01% and 0.01% per annum respectively.

(p) *Trade and other payables*

Trade and other payables principally comprise amounts outstanding for ongoing costs and construction work as well as amount due to gaming operator. The average credit period granted by the MFW Group's creditors is 1 month to 3 months.

	As at 31 December		As at 18 May
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Trade payables	300,992	343,287	10,942
Other payables and deposits received	37,595	31,821	35,053
Accruals	25,539	20,010	11,813
Total trade and other payables	364,126	395,118	57,808

As at 31 December 2010 and 2011, included in the MFW Group's trade payables balance are carrying amount of HK$286,111,000 and HK$323,337,000 respectively, which are due to a gaming operator, a related company of the MFW Group. The relationship with the gaming operator is set out in note 43(v)(m).

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	As at 31 December		As at 18 May
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Within 3 months	9,324	16,745	10,586
3 months to 6 months	17,525	18,079	51
Over 6 months	274,143	308,463	305
	300,992	343,287	10,942

(q) ***Amounts due to shareholders/directors***

As at 31 December 2010, the amounts were due to Ho Hung Sun Stanley, David Chow, Lam Fong Ngo and Li Chi Keung. As at 31 December 2011, the amounts were due to Chan Un Chan, David Chow, Lam Fong Ngo and Li Chi Keung.

As at 31 December 2010 and 2011, the amounts were unsecured, interest free and repayable on demand.

(r) ***Share capital***

	Number of shares	Share capital
Authorized, issued and fully paid:		
Quota shares of MOP1,000 each At 1 January 2010		
31 December 2010 and 2011 and 18 May 2012	10,000	MOP10,000,000
Shown in the financial information as		HK$9,709,000

There was no movement in the MFW's share capital during the Pre-acquisition Periods.

(s) ***Retirement benefits plan***

Employees employed by the MFW Group's operations in Macau are members of government-managed retirement benefits schemes operated by the Macau government. The Macau operations are required to pay a monthly fixed contribution to the retirement benefits schemes to fund the benefits.

The only obligation of the MFW Group with respect to the above retirement benefits schemes operated is to make the required contributions under the schemes.

(t) ***Operating lease commitments***

The MFW Group as lessee

At the end of the reporting periods, the MFW Group had commitments for future minimum lease payments in respect of office properties and staff quarters rented under non-cancellable operating leases which fall due as follows:

	As at 31 December		As at 18 May
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Within one year	6,109	3,317	2,951
In the second to fifth year inclusive	4,045	1,509	304
	10,154	4,826	3,255

Operating lease payments represent rentals payable by the MFW Group for certain of its office properties and staff quarters. Leases are negotiated for an average term of two years and rentals are fixed for an average term of two years.

The MFW Group as lessor

At the end of the reporting periods, the MFW Group had contracted with tenants for the following future minimum lease payments:

	As at 31 December		As at 18 May
	2010	**2011**	**2012**
	HK$'000	**HK$'000**	**HK$'000**
Within one year	23,382	18,333	23,402
In the second to fifth year inclusive	27,312	12,415	31,041
Over five years	—	—	235
	50,694	30,748	54,678

Operating lease income represents licencing income receivable by the MFW Group from certain of its rented premises. Licencing arrangements are negotiated for an average term of three years and licencing fees are fixed for an average term of three years. In addition to the fixed licencing income which are disclosed above, pursuant to the terms of certain licencing arrangements, the MFW Group has licencing income based on certain percentage of gross sales of relevant shop. The contingent licensing income contributed an insignificant amount of licencing income earned by MFW Group during the Pre-acquisition Periods.

(u) *Capital commitments*

	As at 31 December		As at 18 May
	2010	**2011**	**2012**
	HK$'000	**HK$'000**	**HK$'000**
Capital commitments in respect of the acquisition of property and equipment and construction in progress contracted but not provided for	16,393	17,129	10,722

As at 18 May 2012, the MFW Group had capital commitments which are authorized but not contracted for in respect of the redevelopment plan of MFW of approximately HK$5,000,000,000.

(v) *Pledge of asset*

At the end of the reporting period, the MFW Group has pledged certain bank deposits to secure the credit facilities and use of electricity granted to the MFW Group. The carrying values of the asset pledged are as follows:

	As at 31 December		As at 18 May
	2010	**2011**	**2012**
	HK$'000	**HK$'000**	**HK$'000**
Pledged bank deposits	20,579	20,579	20,579

(w) *Contingent liabilities*

(i) During the Pre-acquisition Periods, MFW initiated repossession proceedings against a former tenant at Macau Fisherman's Wharf with rental arrears in dispute of MOP89,008,000 (equivalent to approximately HK$86,416,000) in 2009. The former tenant initiated a counterclaim from MFW an amount of MOP90,728,000 (equivalent to approximately HK$88,085,000) in 2009 for alleging breach of undertakings pursuant to a memorandum of understanding on 19 October 2006 and an escrow undertaking letter on 5 September 2008, as well as seeking compensation for amounts spent on improvements to the premises. This legal proceeding is pending from the Macau Court of First Instance. The Directors of MFW believe the aforementioned case would not result in any material adverse effects on the financial position of the MFW Group. Accordingly, no provision has been made in the financial information of MFW Group.

(ii) During the Pre-acquisition Periods, MFW received a claim for outstanding payments on construction work at Macau Fisherman's Wharf from a contractor in 2008. The contractor claimed from MFW an amount of MOP23,709,000 (equivalent to approximately HK$23,018,000) and the MFW counterclaimed an amount of MOP14,451,000 (equivalent to approximately HK$14,030,000) for defective construction work carried out by the contractor. In April 2010, the Macau Court of First Instance dismissed all claims from the contractor and awarded MOP462,000 (equivalent to approximately HK$449,000) to MFW. The contractor did not agree the court's judgement and appealed to the Macau Court of Second Instance. This legal proceeding is pending from the Macau Court of Second Instance. The Directors of MFW believe the aforementioned case would not result in any material adverse effects on the financial position of the MFW Group. Accordingly, no provision has been made in the financial information of MFW Group.

Save and except for the matters specified above, the MFW Group does not have any litigations or claims of material importance and, so far as the Directors of MFW are aware, no litigation or claims of material importance are pending or threatened by or against any companies of the MFW Group.

(x) *Related party transactions*

Apart from amounts due from (to) related companies and shareholders/directors as set out in notes 43(v)(n) and (q) respectively as well as capitalisation of amounts due to shareholders/directors as mentioned in note 43(iii), the MFW Group had the following significant transactions with related companies, in which certain shareholders/directors of MFW and their close family members have controlling interests in the related companies.

Nature of transaction	Year ended 31 December		Period from 1 January 2012 to 18 May
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Licensing income	32	537	116
Food supplier income	1	699	157
Other income	2,199	92	308
Income from building management service	—	656	330
Food supplies expenses	351	87	21
Rental expenses	3,782	2,766	1,254
Management fee	12,852	12,810	4,215

In addition, the MFW Group has the following significant transactions with gaming operator, in which the relationship is set out in note 43(v)(m).

Nature of transaction	Year ended 31 December		Period from 1 January 2012 to 18 May
	2010	2011	2012
	HK$'000	HK$'000	HK$'000
Revenue from provision of gaming related facilities and gaming related general management services	109,487	131,755	73,055
Direct cost for gaming related operations	90,155	71,473	29,940

At 31 December 2010, 2011 and 18 May 2012, the future minimum lease payments of the MFW Group as lessee contracted with a related party within one year of HK$1,220,000, HK$994,000 and HK$885,000, in the second to fifth year inclusive of HK$102,000, HK$335,000 and HK$ nil respectively. Such commitments were included in note 43(v)(t).

In addition, compensation to key management personnel of MFW Group which represents the Directors of MFW is set out in note 43(v)(f).

(y) ***Major non-cash transactions***

During the period from 1 January 2012 to 18 May 2012, the Group novated its amounts due from MFW Group of HK$656,002,000 to certain directors of the Company including David Chow, Lam Fong Ngo and Li Chi Keung, who are also the shareholders of MFW. Thus, MFW Group's amount due to the related companies i.e. the Group, of HK$656,002,000 was reclassified to amounts due to shareholders/directors of MFW. Furthermore, the shareholders of MFW agreed to capitalize the amounts due to them of HK$3,544,279,000 and the amounts due were recorded as shareholders' contribution in equity.

During the period from 1 January 2012 to 18 May 2012, the Group agreed to assign its trade receivables from a debtor of HK$183,552,000 to MFW to settle MFW's amount due to that debtor which is a related company of MFW Group. As such, an amount of HK$183,552,000 was reclassified from MFW Group's trade payables to amount due to related companies (non-trading) i.e. the Group.

(z) ***Key sources of estimation uncertainty***

The following is the key source of estimation uncertainty at the end of the reporting period, that has a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Income taxes

No deferred tax asset was recognized in the financial information of MFW Group in relation to its unused tax losses available to offset against future profits of HK$615,663,000, HK$422,539,000 and HK$209,826,000 as at 31 December 2010 and 2011 and 18 May 2012 respectively. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. Where the actual future profits generated are more than expected, further recognition of deferred tax asset in relation to unutilized tax losses may arise, which would be recognized in MFW Group's consolidated statements of comprehensive income for the year/period in which such a recognition takes place.

Depreciation

The carrying amounts of the MFW Group's property and equipment (other than construction in progress) and investment properties as at 31 December 2010 and 2011 and 18 May 2012 are HK$1,486,470,000, HK$1,413,350,000 and HK$1,383,882,000 respectively. The MFW Group depreciates the property and equipment (other than construction in progress) and investment properties over their estimated useful lives, or, where appropriate, a shorter period of the remaining terms of the Service Agreement for gaming machinery, using the straight-line method, commencing from the date of property and equipment (other than construction in progress) and investment properties are ready for the intended use. The estimated useful life reflects the MFW directors' estimate of the periods that the MFW Group intends to derive future economic benefits from the use of the MFW Group's property and equipment (other than construction in progress) and investment properties. The depreciation charges for future periods are adjusted on a prospective basis if there are significant changes from previous estimates.

Allowance for bad and doubtful debts

As at 31 December 2010 and 2011 and 18 May 2012, the carrying amount of trade and other receivables are HK$29,043,000 (net of allowance for doubtful debts of HK$46,412,000), and HK$25,735,000 (net of allowance for doubtful debts of HK$53,395,000), and HK$34,233,000 (net of allowance for doubtful debts of HK$53,395,000) respectively. When there is objective evidence of an impairment loss, the MFW Group takes into consideration the estimation of future cash flows to determine the impairment loss. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Impairment on investment properties, property and equipment and prepaid lease payments

Determining whether the investment properties, property and equipment and prepaid lease payments are impaired requires an estimation of their recoverable amount. In determining the recoverable amount, the MFW Group estimates the fair value of the assets at the end of each reporting period. Where the fair value less cost to sell are less than expected, a material impairment loss may arise.

(B) SUBSEQUENT EVENTS

On 15 May 2013, the Company issued 70,631,345 shares to PacBridge Capital Partners (HK) Limited. The shares issued formed part of the advisory fees payable by the Company to PacBridge Capital Partners (HK) Limited in respect of the provision of corporate finance advisory services in connection with the listing. For details of the arrangement with PacBridge Capital Partners (HK) Limited, please refer to section headed "History, Reorganization and Corporate Structure — Pacbridge Share Issue" in the Prospectus.

On 5 June 2013, the Company declared a dividend with total amount of HK$2,446,583,000 to David Chow, Lam Fong Ngo, Li Chi Keung, All Landmark Properties Limited, Grand Bright Holdings Limited, Elite Success Investments Limited and The Legend Club Limited. Dividend payable amounting to HK$2,396,583,000 was used to set off the Group's amounts due from directors and shareholders (as set out in note 25). The remaining dividend payable of HK$50,000,000 will be settled in cash. Upon completion of this arrangement, all amounts due from directors and shareholders will be fully settled. For details of the dividend and set-off arrangement, please refer to section headed "Financial Information — Dividend Distribution Prior To The Listing" in the Prospectus.

Pursuant to service agreement or letter of appointment dated 5 June 2013 entered into between the Company and each of David Chow, Sheldon Trainor-DeGirolamo and Tong Ka Wing, Carl, each of them would be entitled to Directors' Reward Shares representing an aggregate 0.7% of the total issued capital of the Company immediately after the completion of the global offering. Details of such arrangements are set out in the section headed "Particulars of Service Contracts" in Appendix V to the Prospectus.

(C) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31 December 2012.

(D) DIRECTOR EMOLUMENTS

Save as disclosed in this report, no emoluments has been paid or is payable in respect of the three years ended 31 December 2012 by the Company or any of its subsidiaries to the Company's directors.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong